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WEDNESDAY APRIL 21 1999

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WORLD NEWS

IMF warns Europe's central bank not to rule out rate cuts

The International Monetary Fund warned the European Central Bank not to rule out further cuts in interest rates. The Fund believes that with a slowdown in the US economy likely, a strong performance in the euro-zone is vital to keep the world economy on track. **Page 20; Slowdown in US inevitable, Page 6; Strength of sterling, Page 10; Editorial *Comment*, Page 19**

Russia set for default on bonds
Russia is set to default for the first time on its Soviet-era foreign currency bonds in a move aimed at husbanding resources to help it avoid reneging on post-Soviet debt. **Europe, Page 3**

India presses on with reforms
India gave a display of business as usual, as Bimal Jalan, India's central bank governor, set out the bank's reform agenda for the next six months. But political uncertainty was growing in New Delhi. **Asia-Pacific, Page 4**

Report of lapses at N-weapon labs
The US Energy Department and its contractors showed "a lack of attention" to grave security risks at nuclear weapons laboratories in spite of warnings, congressional investigators were set to report. **US, Page 8**

France and Italy urge jobs pact
The European Union must commit itself to an employment pact that would involve a 3 per cent annual economic growth target as well as public investment in new technologies, according to France and Italy. **Europe, Page 3**

Land auction boost for Hong Kong
Hong Kong's first land auction in 12 months attracted aggressive bidding as three plots went for prices sharply higher than market expectations, boosting confidence in the territory.
Asia-Pacific, Page 4

Yeltsin backs regional governors
President Boris Yeltsin told Russia's regional governors that he was "ready to go into battle" to defend their powers – a snub to Yevgeny Primakov, prime minister, who has been pushing for a strengthening of Moscow's authority. **Europe, Page 3**

Jamaica defiant over tax unrest
The Jamaican government said it would not withdraw taxes announced last week that have led to several days of violent protests in towns including the capital, Kingston. **Latin America & Caribbean, Page 8**

Australia on attack over trade talks
Australia has launched a campaign against alleged backsliding by the European Union and the US in the lead-up to World Trade Organisation agricultural trade negotiations. **Trade, Page 5**

Holocaust fund talks stalled
Germany said talks with the World Jewish Congress were deadlocked over an industry fund to compensate Nazi-era Holocaust victims.

Virgin territory beckons Branson
Richard Branson, head of Virgin group and the UK's best-known entrepreneur, is planning to offer flights to outer space and has registered Virgin Galactic Airways as a company. **Britain, Page 10**

BUSINESS NEWS

SmithKline Beecham to ditch osteoporosis drug

SmithKline Beecham, UK drugs company, is to ditch the development of idoxifene, a potentially important product for the bone condition osteoporosis. **Page 19, Companies and Markets**

Société Générale and Paribas, French banks hoping to conclude a friendly merger, stepped up their fight against the hostile bids for both of them from Banque Nationale de Paris ahead of an expected ruling tomorrow on the timing of the competing offers. **European companies, Page 21**

Wärtsilä NSD of Finland and Energy Development Corporation of the US signed contracts with the Ecuadorian government to increase the country's electricity generating capacity. **American companies, Page 26**

The European Central Bank damped expectations of a wave of cross-border banking mergers saying fiscal, regulatory and cultural differences were against the emergence of a fully integrated banking sector in the euro-zone. **Europe news, Page 3**

Kvaerner, loss-making Anglo-Norwegian industrial engineering group, revealed that it was under obligations to dispose of its Philadelphia shipyard in a package together with its shipyards in Finland and Germany. **Europe companies, Page 21**

Atlas Copco, Swedish engineering group, saw its shares fall 7 per cent after announcing a 37 per cent drop in first quarter profits. **Europe companies, Page 21**

Cable and Wireless, UK telecoms company locked in a battle for control of the Japanese international operator IDC, will today increase its offer. **Companies and Markets, Page 19**

Greece's central bank has upset plans by the country's private banks for a significant increase in lending by limiting credit expansion to the private sector. **Europe news, Page 3**

Toronto Stock Exchange board of governors was meeting to discuss the sudden resignation of Rowland Fleming, its president. **Companies and Markets, Page 19**

Agora, Polish media group, saw its shares soar by almost 40 per cent to 49.1 zlotys at the company's initial listing on the Warsaw stock exchange. **Europe companies, Page 20**

LVMH, the French luxury goods group chaired by Bernard Arnault, secured 64 per cent of Château d'Yquem, arguably the best white wine in the world. **Europe companies, Page 20**

Central European Media Enterprises, troubled Nasdaq-listed television group, is in danger of losing the licence for Nova TV, the most profitable of its eastern European stations. **Europe companies, Page 20**

Lex on US banks
First quarter flair not sustainable
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Serb forces start to put pressure on Montenegro

By Kevin Done in Podgorica

The Yugoslav army yesterday took the first steps towards seizing control in the republic of Montenegro by ordering the Montenegrin government to place its police force under military command.

The order brought an instant rebuff from the democratically-elected Montenegrin president, Milo Djukanovic, who has refused to join Serbia's war effort against Nato.

"It is out of the question that the ministry of the interior could be subordinated to the Yugoslav army," Mr Djukanovic told the Financial Times last night. He said the Montenegrin interior ministry had responded to the army's order with the message: "Such an idea is unacceptable."

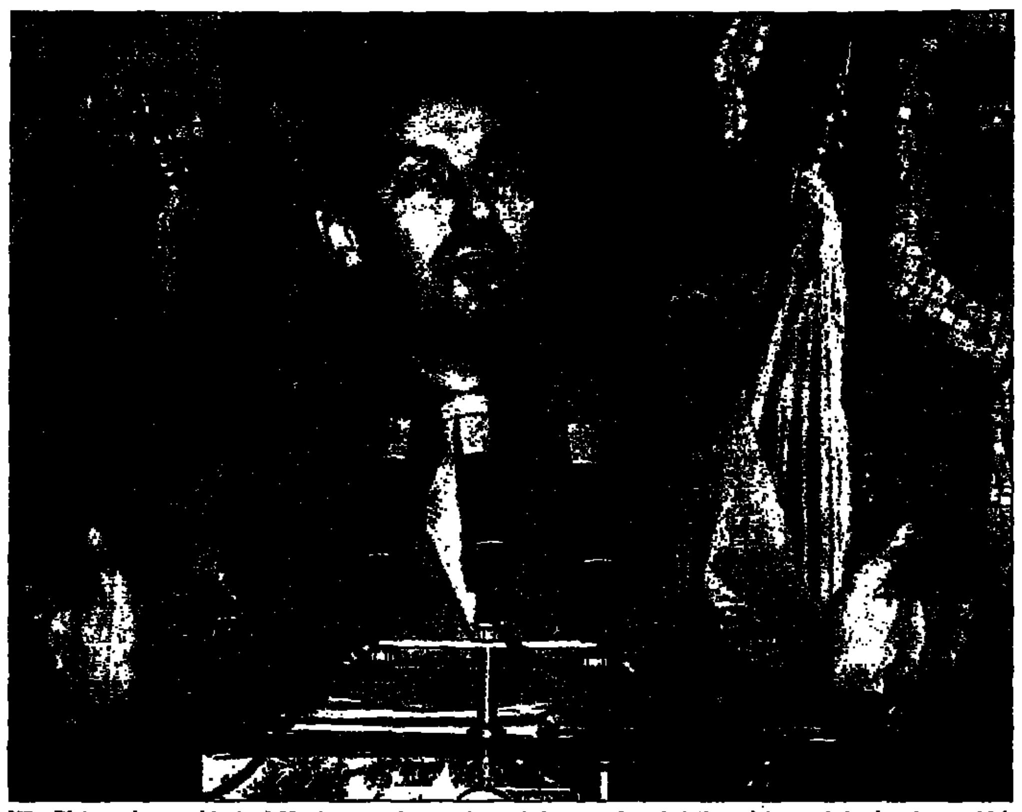
The stand-off between Montenegro and Serbia, the two parts of federal Yugoslavia, is fuelling fears of a civil war which would spread the Balkan conflict beyond the Serbian province of Kosovo.

Tension has been building in Montenegro since Nato began its air campaign against Slobodan Milosevic, the Yugoslav president, four weeks ago.

The Yugoslav federal army headquarters stepped up the pressure when it delivered a letter on Monday night to Filip Vujanovic, the Montenegrin prime minister, ordering him to place the republic's police directly under military command.

The demand followed the reported killing on Monday evening of six refugees by unidentified uniformed men close to the town of Rozaje in the mountains of northern Montenegro, near the border with Kosovo.

According to the Montenegro government information service, the men opened fire at a column of Kosovo refugees, killing six, including an elderly woman and a 13-year-old boy. The Montenegrin government said its police had been prevented by the army from investigating the killings, which had "caused panic" among the refugees in and around the Rozaje area, the main entry point into Montenegro for those fleeing ethnic cleansing in Kosovo.



Milo Djukanovic, president of Montenegro: it was "out of the question that the ministry of the interior could be subordinated to the Yugoslav army" Picture: AP

About 25,000 refugees are believed to be in the area, where there are also understood to be a large number of Yugoslav army reservists. More than 70,000 Kosovo refugees are now in Montenegro, which has a population of only around 650,000.

Tension increased yesterday when forces of the the second corps of the Yugoslav army moved to close the Debeli Brijeg border point, near Herceg Novi – the only border crossing between Montenegro and Croatia.

The border, closed after the war with Croatia, was reopened two months ago by the Montenegrin government. The Montenegrin information service reported yesterday evening that "large formations of the Yugoslav army" had moved into the area of the border crossing and had set up a control point.

Mr Djukanovic said the police had not given up the post: "As we speak, discussions are under way between the interior ministry and the army, with our minister requesting an explanation as to why it was indispensable for the army to appear on this border crossing that was controlled by the ministry of the interior."

Mr Djukanovic indicated that Montenegro would continue to back the Yugoslav army's defence of the country. Civilian institutions were "functioning, so the interior ministry will provide maximum co-operation with the Yugoslav army in defending the country, and in maintaining the security of our citizens and property".

Croatia's ambassador to the United Nations, Ivan Simonovic, lodged an official protest with the UN Security Council, demanding that Yugoslavia withdraw its troops from the area, part of a UN-monitored demilitarised zone.

Montenegro and Serbia make up the federal Yugoslavia and the republic provides Mr Milosevic with his only outlet to the sea. But the Montenegrin government has wrested widespread autonomy from Belgrade, particularly since Mr Djukanovic's election as president in late 1997.

Kosovo crisis, Page 2

Telecoms tie-up depends on government stake

By Paul Betts in Milan

Telecom Italia last night said its proposed merger with Deutsche Telekom could go ahead only if the German government renounced its voting rights on its controlling stake in the German telecommunications group.

The merger would form the world's second largest telecoms group and thwart Olivetti's €60.4bn ($64.6bn) hostile bid for its larger Italian rival.

The decision, which came after the board of the privatised Italian company met for the second consecutive day, reflected the continuing difficulties facing Telecom Italia in satisfying the Italian government's demands.

The joint company would be 56 per cent owned by Deutsche Telekom, reflecting the German group's higher capital value. The plan involves the constitution of a new joint holding company based in Germany, joint management control, and a share exchange valuing Telecom Italia's common voting stock at about €12.5 a share, compared with Olivetti's offer of €11.5 a share in cash, bonds and equity.

Massimo D'Alema, the Italian prime minister, as well as other senior government ministers have insisted that any merger between the two groups should be a union of equals.

In a statement last night, Telecom Italia said the board had studied the proposed alliance and business combination plan based on "a merger of equals". It also confirmed the plan to launch a share-exchange offer to be approved by at least 90 per cent of the shareholders. The new joint holding company, which will absorb Deutsche Telekom ordinary shares and Telecom Italia common voting stock and savings shares through the issue of new shares, would be quoted on the Milan, Frankfurt and New York stock exchanges.

However, the board confirmed it was insisting on a German government commitment to freeze its voting rights on its shares in the new holding company. The board said it would reconvene after it had received this commitment from Germany.

The board is also insisting that the German government dispose of its 74 per cent stake in Deutsche Telekom to avoid the risk of the Italian group being nationalised by the Germans.

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European stocks take a battering

By Edward Luce, Capital Markets Editor

European stock markets fell sharply yesterday as investors fled high-growth stocks in favour of industrial shares.

The markets took their cue from Wall Street, where information technology and other growth stocks had taken a battering. The Nasdaq fell more than 5 per cent after the close of European markets on Monday.

The UK's FTSE 100 was one of the hardest hit, falling 3 per cent to close at 6,319.8. Frankfurt's Dax fell 2.87 per cent to end at 5,101.4, while the CAC-40 dropped 2.88 per cent to close at 4,253.27 in Paris. Analysts said the "rotation" from growth to cyclical stocks had been boosted by a growing view that the global economy would recover in 1999.

The European Central Bank's decision to cut Europe's interest rate to 2.5 per cent earlier this month and signs of economic recovery in Asia have reinforced this assessment.

Cyclical stocks, such as hotels and manufacturing, have dramatically underperformed the market in Europe during the past two years.

In contrast, the information technology and telecoms sectors have been trading at record valuations. "This [yesterday's switch] is an acceleration of what we have seen over the last few weeks," said Ian Scott, European equity strategist at Lehman Brothers in London. "Investors are dumping growth stocks in favour of cyclical stocks."

The largest blue-chip growth stocks, such as Alcatel in France and Reuters, the UK news and information provider, were particularly affected, falling 7.25 per cent and 7.5 per cent, respectively.

By contrast, the price of cyclical stocks, such as Lafarge, the French building materials company, and Imperial Chemical Industries closed higher.

There were also signs of support for smaller and medium-sized stocks, which have languished badly against blue-chips during the past two years. The FTSE SmallCap lost just 16.6 points to close at 2,473.0.

"The market is starting to take notice of better earnings forecasts for the cyclical stocks," said Richard Kersley, European strategist at CSFB. "This gives investors an excuse to take profits on the growth sectors."

However, investors also dumped some cyclical stocks yesterday, including the oil sector, which lost 3.66 per cent across Europe.

WORLD MARKETS

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	10413.33	(-27.20)
NASDAQ Composite	2393.99	(+48.38)
Europe and Far East		
CAC40	4253.27	(-126.07)
DAX	5087.29	(-132.86)
FTSE 100	6319.8	(-195.5)
FTSE Eurotop 300	1276.86	(-34.02)
Nikkei	16,697.11	(+22.90)
US LUNCHTIME RATES		
Federal Funds	4.50%	
3-mth Treas Bills: Yld	4.38%	
Long Bond	95⅞	
Yield	5.53%	
OTHER RATES		
UK: 3-mo Interbank	5¼%	(5¼%)
UK: 10 yr Gilt	110.89	(110.39)
Euro Euribor	2.610%	(2.621%)
Germany: 10 yr Bund	99.38	(99.07)
Japan: 10 yr JGB	103.597	(103.054)
NORTH SEA OIL (Argus)		
Brent Dated	$15.905	(16.065)

GOLD		
New York: Comex	$284.4	(284.8)
London:	$284.85	(283.75
DOLLAR		
New York: lunchtime		
£	1.61285	
€	0.9423	
SFr	1.5095	
Y	118.355	
London:		
£	1.6163	(1.612)
€	0.9384	(0.9422)
SFr	1.5081	(1.5087)
Y	118.255	(118.06)
Tokyo Close		Y 118.35
EURO (London)		
$	1.0657	(1.0613)
£	0.6593	(0.6584)
Y	126.019	(125.297)
SFr	1.6018	(1.6012)

London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr285	Oman	OR1.75
Belgium	BFr90 (€2.23)	Italy	L3900 (€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320 (€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Cyprus		Latvia	Ls1.65	South Africa	R15
Denmark	DKr16.00	Lithuania	Lt21.00	Spain	Pta325 (€1.95)
Estonia	EKr34.00	Lebanon	LBP3.500	Sweden	SKr20.00
Finland	Fmk13.00 (€2.19)	Luxembourg	LFr90 (€2.23)	Switzerland	SFr3.50
France	FFr14.00 (€2.13)	Morocco	Dh18.00	Syria	S£80.00
Gibraltar	£0.85	Netherlands	Fl 4.80 (€2.18)	Tunisia	Din2.000
Greece	Dr500	Norway	NKr18.00	UAE	Dh13.00
Hungary	Ft380				

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KOSOVO CRISIS

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Montenegro: fertile soil for civil conflict

By Guy Dinmore in Belgrade

Economically weak and socially divided, Montenegro is fertile ground for civil conflict should the federal army commanded by Slobodan Milosevic, the Yugoslav president, try to oust Milo Djukanovic, the small republic's western-leaning president.

When former Yugoslavia broke up *in war in the early* 1990s, Montenegro was the only republic to remain faithful to Serbia.

Without Montenegro, Serbia would lose its only outlet to the sea and its Adriatic naval base in Kotor Bay.

Worse perhaps, from Mr Milosevic's point of view, is that the entity of Yugoslavia, his nominal power base, would cease to exist as a federation.

Mr Djukanovic was once loyal to Mr Milosevic but has since become his fiercest critic, threatening at times to hold a referendum on *independence should the* regime in Belgrade lead Yugoslavia into deeper isolation.

In 1989, Mr Djukanovic headed the government of Montenegro, becoming Europe's youngest prime minister.

But by 1997 a serious rift was developing within the ruling party and Mr Djukanovic ousted Momir Bulatovic, the republic's pro-Belgrade president in elections that Mr Milosevic insisted were rigged.

Anti-Djukanovic protests led by Mr Bulatovic in January 1998 failed to prevent his inauguration as president.

Mr Milosevic responded last summer by appointing Mr Bulatovic as prime minister of federal Yugoslavia, creating a rift between Serbia and Montenegro that meant the federation existed in little but name.

In the past year, Montenegro has taken control of its borders and customs posts – prerogatives of the federal government – meaning that the only institutions still linking the two republics were their currency, the dinar, and the army.

Should the political struggle develop into war, then the second corps of the federal army, under a new commander appointed by Mr Milosevic last month, will find itself up against the interior ministry police forces loyal to Mr Djukanovic.

The cohesion of the army in Montenegro is in doubt. Many troops are Montenegrin conscripts whose sympathies may well lie with their president.

Through Mr Bulatovic's opposition Socialist People's party, Mr Milosevic can muster support among the old guard of ex-communists and industrial workers whose economic lot has declined over the years.

Political divisions have also split families, with the younger generation mostly favouring the pro-western outlook of Mr Djukanovic.

Rifts within Montenegro, a clan-based society of some 650,000 people, run deeper.

Among the Orthodox Slavs, Montenegrins are broadly divided between the "Greens" who favour independence and hark back to when part of Montenegro was an independent kingdom, and the "Whites" who want union with Serbia.

To make matters more complicated, about 20 per cent of Montenegro's population are ethnic Albanians or Moslem Slavs whose leaders have backed Mr Djukanovic's coalition government and fear domination by Belgrade.

'Akrona' war game is too close to home

Montenegrin officials are now questioning their role play in a Nato computer project

By Guy Dinmore in Belgrade

Civil war in Moslem-dominated Akrona has claimed 200,000 lives and displaced 60 per cent of its people. Foreign forces have intervened, a peace deal is signed and the United States and Nato are seeking to rebuild the Balkan state in their own image.

Akrona is, of course, a fictitious state, one created in a computer simulated program used by Nato planners to prepare for a post-war Balkan future. Two months ago, 30 senior officials from the Yugoslav republic of Montenegro were taken quietly by the US embassy in Belgrade to The Hague for five days of computer games involving the program run by Nato's Consultation, Command and Control Agency, known as C-3.

Each of the 30 officials had a fictional role to play in rebuilding Akrona from the war that has torn apart the six republics of former Yugoslavia. There was the president and his ministers, the foreign head of the central bank, the IMF and World Bank, aid agencies and non-government organisations (NGOs).

The computer program was called SENSE – Synthetic Environments for National Security Estimates – and designed by the Institute for Defence Analyses, a US group that describes itself as an NGO.

"We had great fun, mapping the future and playing with lots of money," recalled one of the participants. At the time they believed they were rehearsing the future for their own state. Over the past two years Montenegro has moved steadily closer to independence under its pro-western president, Milo Djukanovic, arch-rival to Yugoslav President Slobodan Milosevic and yesterday's moves by the Federal Army suggested the game could soon appear all too real.

But looking back, the Montenegrin participants are not so sure what game they were playing. They note that they were playing at the very time the Kosovo peace talks were being held in France. The last month of Nato bombing raids across Yugoslavia has convinced them that Akrona was actually Kosovo.

Akrona, a mountainous state in former Yugoslavia with a Moslem plurality and a capital called Gudriz, was described in detail in the program's parameters. "The diverse religious and ethnic split within its own borders... led finally to civil war and ultimately to external intervention," explained the game's handbook. In an ominous prediction of what was to befall Kosovo, it said nearly 60 per cent of the population was displaced, 60 per cent of housing destroyed, infrastructure wrecked and 80 per cent of the people dependent on foreign aid.

Akrona's place within the US orbit was well defined: "The US is the major player in Akrona's world. It broke a logjam by creating the accords, brought shaky allies aboard and in the end provided the military and security strength... Co-operation between Akrona and the US is close, marred only by occasional US concerns over the degree of linkage between Akrona and several fundamentalist Islamic states... Libya and Iran."

Private US banks are involved, Nato is "the bulwark of Akronan security" while the relationship with Russia is "distant" despite Moscow's "positive role" in peace talks.

"It's scary to think we were puppets," said one participant.

Nato officials had no immediate comment on the Akrona project. One participant recently telephoned Nato to ask what it was really about and, with Montenegro itself on the brink of civil war, what to do next. "Be quiet and keep your head down," came the reply.

Nato strike targets Milosevic inner-circle

Hitting industrial targets is having the effect of weakening the friends and family of the president who, through his patronage, run the Yugoslav state and economy, writes **Stephen Fidler**

Yugoslavia's official media yesterday reported a Nato air strike against a cigarette factory in Nis, Serbia's third largest city. Nis acts as a military headquarters for Yugoslav troops operating in Kosovo, but it was not the first time Yugoslavia reported factory and tobacco warehouses in the city had been hit.

Although Nato officials in Brussels yesterday would not confirm that the Nis cigarette factory was a target of an attack, they had previously confirmed that the Zastava car plant in Kragujevac was hit by cruise missiles earlier this month.

The attack on the car plant and the important role of President Slobodan Milosevic's son, Marko, in the country's tobacco industry raises the question of whether Nato is limiting itself purely to military-related targets in its air campaign to rid Kosovo of Serb forces. It suggests Nato may also be going after the economic interests of a select group of individuals around the president.

Officials in Nato governments are cagey about specific targets. But although the primary goal of the Nato campaign is to weaken Mr Milosevic's army and security forces, they say one not unwelcome by-product of the attacks would also be to weaken the coterie that provide much of his economic support.

According to Kenneth Bacon, the Pentagon spokesman, the Yugoslav president's power is supported by four pillars. "The first are the army and security forces, the second is his control of the political party, the third is his control of the media and the propaganda instruments, and the fourth is his control of flows of corruption, and that comes through his overall influence over the economy."

To the extent that Mr Milosevic has put his supporters in charge of crucial industries such as fuel, ammunition or chemicals, they would be hurt by these attacks.

"The military mission is to reduce, degrade, disrupt the ability of his military to operate. So the targets we're hitting are fundamentally in pursuit of that purpose. To the extent that they happen to be owned or controlled by members of some economic elite who have gotten access or ownership to these assets because of their friendship or political support of Milosevic, that would be a secondary impact," he said.

A similar message came from Jamie Shea, the Nato spokesman, in Brussels yesterday. "Yugoslavia is a state based on nepotism. It's almost impossible to strike at any industrial target without ruining the stocks and the shares of one of Milosevic's ministers or his own family, because they are the state."

However, there have been reports that some Nato commanders favour widening the air campaign to include more specifically economic objectives. The New York Times reported on Monday that General Wesley Clark, Nato commander in chief, was among Nato commanders intensifying the pressure on Mr Milosevic by hitting more economic and industrial targets.

This would be aimed at undermining Mr Milosevic's hold on power, which he has cemented over the past decade by making sure that members of his inner-circle are both ministers and directors of powerful industries at the same time.

Their fates are bound together. Mr Milosevic's Socialist party and the Yugoslav Left, run by his wife Mira Markovic, in effect control much of Serbia's state-owned and private enterprises.

Milosevic (centre) and his acolytes: clockwise from top left, son Marko, wife Mira, Mirko Marjanovic, Serbia's prime minister and Dragan Tomic, parliamentary speaker AP, Reuters

The most powerful, moneyed members of the inner circle include Serbian prime minister Mirko Marjanovic who runs Technogas and Progres, importers of gas from Russia. He is a long-time associate of former Russian prime minister Victor Chernomyrdin, who used to head Gazprom, Serbia's main supplier.

Dragan Tomic, speaker of the Serbian parliament, runs NIS-Jugopetrol, which refines and distributes oil.

Another powerful individual is Milan Beko, a former minister of privatisation, who ran the Zastava car plant in Kragujevac.

Other powerful figures at the top run the Beopetrol chain of petrol outlets, the ubiquitous C-chain of foodstores, the Sartid steel plant in Smederevo and various pharmaceuticalcompanies, including Galenika, recently owned by ICN Pharmaceuticals of Pasadena, California, but nationalised by the Serbian government.

Mr Milosevic's daughter Marija runs a popular radio station and has recently taken over a television station.

Officials form Nato countries have also been reluctant to talk about any efforts to hunt down assets held abroad by the Serb economic elite. Robin Cook, the UK foreign minister, said last week that Mr Milosevic himself owned three villas in Greece.

Bankers have long maintained that billions of dollars were siphoned out of Belgrade when the former Yugoslavia broke apart in the early 1990s. Much of the money went first to Cyprus and was then dispersed. Channels and destinations are said to have included Lebanon, Israel, South Africa and China.

President looks to patriarchs

Slobodan Milosevic, Yugoslav president, said yesterday he saw Russia and the Russian Orthodox Church playing a key role in ending the Nato bombing of his country, reports Reuters in Belgrade.

"Russia will also contribute to establishing peace as soon as possible and to halting this aggression that is not grounded in a single moral, legal or any other principle," Mr Milosevic said after meeting Russian Patriarch Alexy II at the Yugoslav president's Belgrade palace.

Mr Milosevic, whose meeting with the Russian Patriarch and Serbian Orthodox Patriarch Pavle was shown by Serbian television, said that Serbs welcomed Patriarch Alexy's visit "as an expression of the great solidarity of the Russian people".

"We have known Patriarch Alexy for a long time. We know he is a great patriot. We also know he is a great fighter for peace... and his efforts to fight for peace must certainly yield results," said Mr Milosevic in one of his rare public appearances since the bombing began.

Mr Milosevic has had a tense relationship with the Serbian Orthodox Church. In February 1997, Patriarch Pavle led what turned into an anti-government demonstration through the streets of Belgrade.

The Russian Patriarch was visiting Belgrade to lend support to Serbia and further Russia's efforts to mediate a peace settlement in Kosovo almost a month into the bombing campaign by Nato over Belgrade's crackdown on Kosovo's ethnic Albanians.

Fears for missing refugees

By Matej Vipotnik in Skopje, Neil Buckley in Brussels and Agencies

International aid workers yesterday reported a huge column of Kosovo refugees on their way to Albania as missing, raising fears for their safety at the hands of Yugoslav security forces.

The reports came as the Organisation for Security and Co-operation in Europe (OSCE) offered fresh evidence of systematic atrocities inside Kosovo.

Aid agencies said there was no sign of more than 100,000 people spotted by other refugees queueing up near the Albanian border on Saturday. Only about 100 refugees arrived in Albania on Monday. None had any news of the larger group, estimated to be 30km long. The road to the border was clear, they said.

"Something must have happened to these people," said Kris Janowski, spokesman for the United Nations High Commissioner for Refugees in Geneva. "We presume [Yugoslav forces] must have gotten them off the road somehow."

The reports added to concerns raised earlier by Nato that Serbian forces were rounding up as many as 850,000 refugees and preparing to drive them across the border in huge waves, with the aim of destabilising the recipient countries.

Concerns have also been raised over the phenomenon of missing ethnic Albanian men, estimated by Nato to number at least 100,000.

Nato yesterday accused Yugoslav forces of conducting a "safari campaign", shelling hillsides where refugees are hiding to drive them down onto the roads and out towards the borders.

Sadako Ogata, UN refugee chief, urged Nato countries and other states to step up their support for the humanitarian operation caring for refugees from Kosovo.

The Macedonian government yesterday offered some relief when it agreed to allow the construction of a new refugee camp. The new camp, near the town of Tetovo, will house up to 15,000 refugees. There are 46,600 already in camps in Macedonia.

Refugees in Macedonia have told international investigators of systematic human rights violations in Kosovo, including mass rape, the OSCE said yesterday. The organisation's human rights experts have interviewed some 250 refugees to gather material for the UN war crimes tribunal in The Hague.

"The statements paint a picture of total lawlessness and an almost complete absence of any form of protection for ethnic Albanians" in Kosovo, the OSCE's Kosovo Verification Mission (KVM) – pulled out of the province last month to clear the way for Nato air strikes – said in a statement.

Yugoslav authorities and state media have rejected such accusations as anti-Serbian propaganda. Belgrade says the exodus of ethnic Albanians from Kosovo and devastation have been caused by punitive Nato air strikes. "As yet, details of interviews cannot be verified on the ground," the KVM statement said. "Nevertheless, corroborating state*ments and other evidence* indicate a high credibility factor in the vast majority of statements taken."

While acknowledging that details could not yet be confirmed on the ground, the KVM statement said corroborating accounts suggested deliberate, violent "ethnic cleansing" was the most prevalent human rights abuse reported.

"The perpetrators allegedly work in large groups consisting of VJ (Yugoslav army), MUP (Serbian military police) and/or paramilitary groups," the KVM statement said.

"In several cases, interviewees were able to give precise descriptions of the uniforms and insignia worn by these groups. A substantial number of perpetrators could be identified.

"Reports indicate a pattern of intimidation and harassment, combined with assaults, pillage, shelling, killings... and executions...after which people flee or are simply told to leave."

A Macedonian volunteer tends to a child at a border camp Reuters

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DIPLOMACY UK, FRANCE LOBBY FOR BELGRADE TO BE STRIPPED OF CONTROL OVER PROVINCE BUT NOT AS PRECURSOR TO INDEPENDENCE TO APPEASE RUSSIA

Nato starts to promote idea of Kosovo as protectorate

By David Buchan, Diplomatic Editor

Nato governments are beginning to promote the idea of turning Kosovo into an temporary international protectorate," endorsed by the United Nations, once the alliance's conflict with President Slobodan Milosevic over the province has ended.

Robin Cook and Hubert Védrine, the British and French foreign ministers, have over the past two days made a co-ordinated call for Belgrade to be stripped of virtually all control over, and links with, Kosovo. But they also stressed that making a Kosovo a ward of the international community should not be a precursor to making it independent, largely to appease Russia, whose co-operation in the UN Security Council would be required.

The UK and French foreign ministers have been at the heart of the west's political strategy for Kosovo since they co-chaired the abortive Rambouillet talks between Serbs and Albanians. The need to adapt, if not ditch, the defunct Rambouillet plan for Kosovo autonomy has been recognised ever since the conflict began, but accelerated by the scale and brutality of the Serb clear-out of Albanians from Kosovo.

The first step came over Easter weekend, when Nato started to demand the withdrawal of all Serb forces from Kosovo, not just some as stipulated by the Rambouillet draft peace plan. Yesterday, Mr Védrine said in an interview that the "key new element is the notion of some kind of temporary international authority over Kosovo", which Mr Cook earlier told the UK parliament should take the form of a UN mandate for a Kosovo protectorate.

'The key new element is the notion of some kind of temporary international authority over Kosovo'

A UK official explained yesterday this formula reflected "the reality that it is now unreasonable to expect the Albanians to accept any Serb troops and that Kosovo is no longer a functioning society because of the massive destruction there".

The suggested recourse to the UN, which Nato has studiedly ignored since last autumn, also indicates a hankering by European members of Nato for the world body's blessing for a Kosovo settlement, if not for their prior military campaign, and to appease the Russians. The US feels less naked than the Europeans do in the absence of UN endorsement, but President Bill Clinton's long telephone conversation with President Boris Yeltsin on Monday is testament to Washington's desire to maintain steady relations with Moscow.

Despite the fact that its air force is making the biggest single European contribution to the bombing campaign, France is concerned that opening any further front against Yugoslavia should have UN endorsement and thus Russian acquiescence.

For this reason, France has raised objections to Nato mounting a sea blockade to prevent oil reaching Montenegro's ports and instead proposed the EU ask all those countries with whom it has special trading relationships to deny Belgrade oil.

Paris even foresees a UN role in the event that Mr Milosevic never surrenders to Nato demands. Citing the Security Council's power "to impose solutions even against the will of a sovereign state", Mr Védrine said he could envisage a UN resolution "that lays out a political settlement for Kosovo and orders an international military force to implement it". An Elysée official claimed yesterday this was the only plausible political scenario for Nato to send in ground troops against Serb resistance.

Russia, meanwhile, appears to be focusing its mediation efforts on organising a peacekeeping force whose composition might be more acceptable to Belgrade. Viktor Chernomyrdin, the former prime minister whom Mr Yeltsin has made his special Kosovo envoy, was yesterday touring ex-Soviet republics. After meeting Eduard Shevardnadze, the Georgian president, Mr Chernomydrin said he agreed with the Georgian leader's five-point peace plan. This is now very similar to that of Nato, except for its emphasis on Kosovo autonomy within Serbia and on the non-Nato make up of a peacekeeping force.

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Russia to default on Soviet-era bonds

By Arkady Ostrovsky and Stefan Wagstyl in London

Russia is set to default for the first time on its Soviet-era foreign currency bonds in a move aimed at husbanding resources to help it avoid reneging on post-Soviet debt.

The Kremlin is gambling that the International Monetary Fund and western governments will see the action as a necessary, if painful, step towards a comprehensive renegotiation of key elements of its $140bn foreign debt.

Russia plans to miss the repayment of a $1.3bn tranche of Soviet-era bonds, known as Minfin bonds, due next month, in order to avoid defaulting on dollar international bonds issued since the collapse of the Soviet Union. It plans to pay $330m in interest falling due at the same time, but the default could still trigger cross-default on $11bn total outstanding Minfin paper. The government calculates that favouring newer creditors over old will help it to avoid damaging further its battered reputation in international capital markets.

The default on Minfins, held mainly by commercial banks and other private investors, would form part of a deal under negotiation with the Paris Club of sovereign creditors, among whom Germany is the biggest lender. Under a plan outlined by Siegfried Borggrefe, chief Paris Club negotiator for Germany, the Paris Club would be prepared to reschedule up to $8bn (out of $42bn Soviet-era debt owed to western governments), on which payments have either already been missed or which fall due in 1999 and 2000.

Any deal with the Paris Club depends on a prior agreement with the IMF, which is currently in Moscow discussing short-term financing. Mikhail Kasyanov, the first deputy finance minister, said yesterday that agreement with the IMF was expected by the end of this week. He hoped this would pave the way for a comprehensive deal with other sovereign creditors by June, he told the Financial Times.

Mr Borggrefe confirmed Bonn would not be prepared to forgive any debt made by the Soviet Union, as the Kremlin has asked. But Germany and the Paris Club were prepared to re-negotiate $8bn of Soviet-era debt, including $3bn on which payments have already been missed.

A deal under which Russia would default on the Minfin bonds would meet an important Paris Club demand – that western taxpayers alone should not carry the burden of refinancing Russia and that Wall Street should share the pain. Meanwhile, Russia could keep up payments on its post-Soviet debt, thereby keeping open the hope of future access to capital markets.

The proposed agreement will infuriate holders of Minfin bonds, which are traded in London. Yesterday, Standard & Poor's, the US rating agency, downgraded all $11bn of Minfin bonds from CCC- to CC.

Lower turnout seen at EBRD meeting

Just 1,684 business people attended the annual meeting of the European Bank for Reconstruction and Development, which ended in London yesterday, compared with 3,200 at the same event two years ago, **writes Stefan Wagstyl in London.** Horst Köhler, the EBRD president, said the decline reflected the fact the 1997 meeting had been held at the height of the euphoria in emerging markets, before the financial collapse in Russia.

Financial investors are now less enthusiastic about the region. But direct investors, such as large industrial companies, said at this year's meeting that they remained interested in eastern and central Europe. Mr Köhler told the meeting that the EBRD, the region's biggest single investor, also remained committed. However, following losses suffered in Russia last year, it is pursuing a more cautious approach to new investment and putting effort into recovering money from troubled projects. Its priorities include supporting small business for which it has announced a new €120m ($128m) fund, financed jointly with the European Union.

Barriers seen to banking mergers

By Tony Barber in Frankfurt

Fiscal, regulatory and cultural differences are likely to impede the emergence of a fully integrated banking sector in the euro-zone despite the impact of monetary union, the European Central Bank said yesterday.

In its monthly report for April, the ECB damped expectations of a wave of cross-border mergers and acquisitions in retail banking, saying it would be difficult to make cost savings and harmonise different national practices.

"By contrast with money market and many other wholesale banking activities, fiscal, legal and cultural aspects as well as divergences in the way business is conducted seem to perpetuate the segmentation of national markets for retail banking services," the ECB said. "The mortgage market is a good example of this, as it continues to be subject to substantial national regulations, taxation, subsidies and administrative procedures. The need to become familiar with conditions in national markets and the difficulty of developing standard pan-European banking products constitutes a barrier to cross-border activity."

The ECB estimated the number of banks and other credit institutions in the euro-zone at 8,249 at the start of April, compared with more than 11,200 in 1985. However, consolidation in the financial industry was related not only to the impact of monetary union and the European Union's single market, but to sharper global competition.

The ECB's report confirmed the impression of banking specialists who say that the euro's launch in January has raised pressure for mergers and acquisitions within individual countries, notably in France, Italy and Spain, without triggering large cross-border deals.

"Cross-border mergers and acquisitions have so far been largely intended to facilitate expansion into specific market niches rather than the mass segment of the retail banking market," the ECB said.

"Since the cost savings from eliminating overlaps in the retail network are likely to be limited, and the managerial costs of integrating different structures and corporate cultures can be substantial, this type of operation – motivated by the desire to gain access to foreign retail markets – may remain scarce.

"Strategic alliances giving individual banks access to each other's distribution networks could provide an alternative way of expanding cross-border retail banking."

It suggested that, if national banking sectors were to be completely integrated, this would come about partly because of the spread of direct banking and changes in popular tastes. Customers increasingly prefer products such as mutual funds, securities, pension funds and life assurance policies to traditional bank deposits, it said.

Wim Duisenberg, president of ECB, which played down hopes for a fully integrated banking sector in the euro-zone Reuters

France, Italy urge pact for EU growth

By Robert Taylor, Employment Editor

The European Union must commit itself to an employment pact that would involve a 3 per cent annual economic growth target as well as public investment in new technologies, new businesses and infrastructure projects, according to a memorandum drawn up by the French and Italian governments.

Copies of the document are circulating in Brussels and have been sent directly to both the German and UK governments. It is seen by officials as a rearguard action against the UK, Germany and Spain, which want to concentrate on making EU labour markets more flexible rather than focus on a wider growth strategy.

Martine Aubry, the French labour minister, is backed by her Italian counterpart, Antonio Bassolino, on calling for a growth in real wages in line with productivity improvement. In their document, they argue a 1.5 per cent employment expansion would require a 3 per cent growth commitment and a 1.5 per cent rise in purchasing power and productivity.

However, Ms Aubry and Mr Bassolino argue that economic growth alone will not be sufficient to reduce unemployment levels substantially. They believe it is necessary to avoid any unequal expansion that would marginalise the weak and unskilled. But the two ministers insist this will require "major social innovations" to deal with "unmet social needs". "Market forces have been unable to bring these innovations into play," says their document. "It is up to the state in association with social partners and regional authorities to see these changes through to implementation."

In addition, France and Italy want to see reductions in indirect labour costs on low paid jobs, paid for through EU co-ordination in establishing minimum tax rates on savings and corporate incomes.

Ms Aubry and Mr Bassolino are determined that EU macro-economic policy initiatives should be more firmly integrated into employment strategies designed to deal with structural labour market problems. Mr Bassolino is due to meet UK ministers today to discuss this approach.

The Dutch government is also lobbying for separate employment guidelines in the EU that would create "appropriate and differentiated growth" in real wages. In a memorandum to the European Commission, Klaas de Vries and Gerrit Zalm, Dutch social affairs and finance ministers, want EU states to report on their "domestic wage-cost growth in their national action plans on employment".

They want to include wage developments in the formation of broad economic guidelines in the EU to ensure they are "consistent with the goal of price stability and reflect the employment situation".

NEWS DIGEST

REGIONS PROMISED MORE AUTONOMY

Yeltsin snubs Primakov over regional relations

President Boris Yeltsin told Russia's regional governors yesterday that he was "ready to go into battle" to defend their powers – a further snub to Yevgeny Primakov, prime minister, who has been pushing for a strengthening of Moscow's authority.

During a meeting with regional leaders, Mr Yeltsin promised them more autonomy in exchange for their support. "I insist that the priority in all affairs should be with you, and not with the federal centre" he said.

Andrei Piontkovsky, director of the centre for Strategic Studies in Moscow, said: "Yeltsin announced that he is about to go into battle. The question is against whom? I think it is obvious that the answer is Primakov."

Relations have deteriorated recently between Mr Yeltsin and Mr Primakov, who is highly popular in Russia and enjoys the support of leftwing parties in the Duma, Russia's lower house of parliament. On Monday, Mr Yeltsin declared his support for a free media, which many took to be a shot at Mr Primakov's recent attempts to staff state media companies with former colleagues from the secret services. **Charles Clover, Moscow**

CONSTITUTIONAL REFORM

Blow to Swiss modernisation

Switzerland's chances of modernising its cumbersome system of direct democracy, which gives substantial powers to the country's small cantons, have receded following only a narrow vote in favour of a new constitution.

Switzerland has taken nearly 30 years to modernise the constitution, which was written more than a century ago. Although the new constitution breaks the link between the Swiss franc and gold and enshrines the right to strike, the main changes are in language rather than content. Drafters of the new constitution avoided controversial reforms, such as modernising the system of direct democracy, because these would have further delayed the project.

Although 59.2 per cent of Swiss voters supported last Sunday's referendum, it was nearly defeated by a failure to win the support of at least half the cantons. The majority of the opposition came from the small rural cantons of central Switzerland while the main cities all supported the new constitution. **William Hall, Zurich**

EUROPEAN ANTITRUST RULES

Fines reduced in cartel case

A European court yesterday backed a ruling by the European Commission that 12 chemical companies had taken part in a price-fixing cartel but reduced the fines for three of the participants.

The European Court of First Instance cut the fine for Elf Atochem of France from €3.2m ($3.4m) to €2.6m, for Imperial Chemical Industries from €2.5m to €1.55m and for Société Artésienne de Vinyle (Sav), also of France, from €400,000 to €135,000.

The court confirmed the Commission's ruling that 12 companies had infringed antitrust rules in the early 1980s, but said it had exaggerated the market share of ICI and Elf in calculating their fines. Other fines, unaffected by yesterday's ruling, include €2.5m for Italy's Enichem and €2.2m for Germany's Hüls. **Michael Smith, Brussels**

SINGLE CURRENCY

Shorter euro launch urged

Most European Union states want to cut the period allowing co-existence of national monies after the introduction of euro notes and coins on January 1 2002 from the six months originally envisaged, Yves-Thibault de Silguy, the commissioner for monetary affairs, said yesterday.

Giving evidence to the European Parliament's monetary sub-committee, Mr de Silguy said a "large majority" of states want the period of double circulation in the euro area reduced to "six to eight weeks". The aim would be to reduce costs and confusion. He said the European Commission would continue consultations aimed at reaching a consensus before September. **Peter Norman, Brussels**

Greece moves to limit credit expansion

By Kerin Hope in Athens

A move by Greece's central bank to limit credit expansion to the private sector has upset plans by the country's private banks for a significant increase in lending this year.

Greece's biggest private banks were set to expand their loan portfolios by more than 25 per cent this year in response to strong demand for consumer loans and trade financing. The banks see rapid expansion as the key to remaining competitive after Greece joins the euro-zone, probably in 2001.

"The credit restrictions distort competition by favouring inefficient state banks that are underperforming the market," said a senior Greek banker. "They're inappropriate in a market environment."

The Bank of Greece has set a 12 per cent ceiling for private sector credit growth over the next year. Banks that exceed the quarterly limit of 3 per cent growth will be penalised.

They will have to deposit funds equivalent to the extra lending for six months as an interest-free reserve requirement.

The measures, which the bank called "temporary", are intended to reduce inflationary pressures as Greece struggles to cut annual inflation from 3.4 per cent in March to 2 per cent by the end of this year.

Concern is growing that Greece's effort to qualify this year for euro-membership could be derailed by a sudden spurt in inflation.

The banks are not expected to increase lending rates in response to the measures, but would pass on some costs to borrowers. Analysts said most banks would try to bypass the restrictions by routing loans through subsidiaries abroad.

High real interest rates, about 8 per cent above euro-zone levels, have failed to restrain credit growth. The central bank said credit expansion to the private sector rose 15 per cent in January, with consumer credit increasing 35 per cent.

The central bank's reliance on administrative measures to control credit growth also raises concern over Greece's prospects for keeping down inflation next year, analysts said. The central bank would have to ease monetary policy in 2000 and allow interest rates to fall sharply in the run-up to euro-zone entry in January 2001.

Land auction boost for HK economy

By Louise Lucas in Hong Kong

Hong Kong's first land auction in 12 months attracted aggressive bidding yesterday. Three plots went for prices sharply higher than market expectations, boosting confidence in the territory.

The government, owner of the territory's undeveloped landbank, suspended land auctions last June as part of efforts to prop up the property sector, normally a pillar of the economy. Falling prices reverberated through the territory last year, when the economy shrank 5.1 per cent.

Property prices have roughly halved from their peaks in late 1997, but recent demand for apartments and a fresh round of mortgage price wars among the banks suggest a new mood of optimism.

Healthy bidding yesterday appeared to support that view. The first plot, a residential site on the eastern part of Hong Kong island, went under the hammer for HK$590m (US$76m). Bidding opened at HK$340m, and the market was expecting around HK$400m-HK$500m. It was bought by Sino Land, the property developer controlled by Robert Ng.

While some analysts said the strong bidding and high prices reflected greater confidence in the property market – and in the economy as a whole – others were more circumspect. Nicholas Brooke, chairman of Brooke International, the property consultancy, said: "It is all a bit heady. This is what happens when you turn the tap off and on again" by stop-starting land sales.

Blue-chip developers, which did not enter the fray yesterday, were similarly concerned. Colin Lam, vice-chairman of Henderson Land, said that prices were on the high side and added that the company – like most developers and buyers – did not want to see a sharp rise in residential prices.

Victor Li, chief executive of Cheung Kong, one of Hong Kong's biggest property developers, cautioned that high prices were not necessarily good for the territory's economy. But he said the auction results sent a positive signal.

In total, the three plots raised HK$1.49bn, against market estimates of around HK$1bn to HK$1.3bn. "It's certainly a great result for the government," said Mr Brooke. But the prices suggest developers were banking on an increase in property values of 30 to 40 per cent, a doubtful achievement in the present climate.

The auction failed to cheer the stock market, which fell sharply on share placement worries. But it has staged an impressive rally in recent weeks and has gained 32 per cent since lunar new year in mid-February.

Japan expects to see yet another economic package

The question is: how big and just when will it come? Michiyo Nakamoto reports

Government bureaucrats deny it. Political leaders call the notion "a joke". But for a growing number of people it has become accepted wisdom that Japan will adopt another supplementary budget this year.

Tadashi Imai, head of Keidanren, the business federation, and Naoto Kan, leader of the opposition Democratic Party of Japan (DPJ), have signalled recently that they expect the government to be forced to adopt further stimulus measures later this year.

"There is no question that there will be a supplementary budget," says Naka Matsuzawa, investment strategist at Nomura Securities in Tokyo. "The question is how big it will be and when it will be announced."

Having adopted a record Y82,000bn ($697bn) budget just last month, and after injecting Y24,000bn in supplementary funds last November, Japan's political leaders may be forgiven for wanting to think the country does not need even more public funds to revitalise the economy.

Talk of another stimulus package costing the government thousands of billions of yen will send jitters through the bond market and prompt an embarrassing downgrade of Japanese government debt.

"I have no intention of drawing up an extra budget," Kiichi Miyazawa, finance minister, has said repeatedly over the past several days.

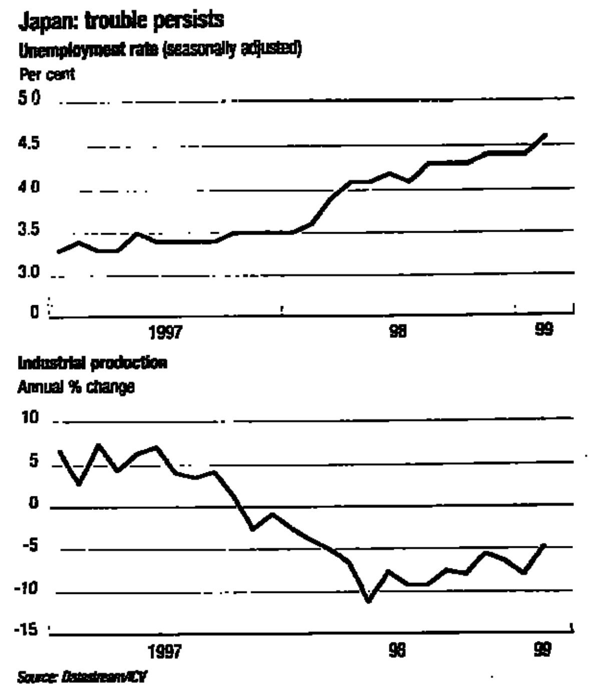
In private, however, many politicians, including those in the Liberal Democratic party (LDP), are aware that the economy is unlikely to return to self-sustaining growth before the government's spending runs out.

Keizo Obuchi, the prime minister, is politically committed to delivering 0.5 per cent growth this year.

Yoshio Suzuki, an economist and member of the Liberal party, junior member of the ruling coalition, has indicated that government discussions on a supplementary budget can be expected by May or June.

What is more important, the prospect of higher unemployment likely to follow the recent acceleration of corporate restructuring adds to the pressure. Japan's unemployment rate is already at a record 4.6 per cent.

Obuchi (centre): Another extra budget may raise less applause AP



Mr Obuchi has his own reasons for wanting to increase spending. He is bound to come under pressure to return Japan to growth both at his meeting with President Bill Clinton early next month and at the Group of Seven summit in the summer.

In light of the grim forecast of negative 0.9 per cent growth by the Organisation for Economic Co-operation and Development and some even gloomier private forecasts, assurances by Mr Obuchi that the economy is on track for growth this year is unlikely to placate Japan's friends in the west.

Further, the prime minister faces an election in September for the LDP presidency. His strongest rival, Koichi Kato, has started openly to criticise Mr Obuchi's policy, urging fundamental restructuring rather than the conventional boost to public works spending.

For Mr Obuchi, who has made no secret of his intention to extend his term beyond September, a supplementary budget may well be the only way he can ensure re-election.

The danger for Mr Obuchi is that the stock market could drop sharply as companies unwind their cross-shareholdings before closing their books for the half-year, said Mr Matsuzawa.

Traditionally, a high level of bankruptcies occurs in August, the month before the end of the Japanese half-year. A supplementary budget in the summer would help cushion the pain.

Further, Mr Obuchi has been entertaining his old journalist friends and suggesting in private that he is looking to hold national elections this year, according to Takao Toshikawa, editor-in-chief of Tokyo Inside Line.

Elections for the lower house of the Diet do not need to be held before autumn next year, but earlier elections could work in favour of both Mr Obuchi and the LDP, the argument goes.

For one thing, the DPJ, the leading opposition party, has been damaged by the recent local elections in which it lost a high-profile seat for the governorship of Tokyo and another local government seat formerly held by a DPJ member.

The LDP needs to build voter confidence in the economic outlook to ensure success in the national elections.

The growing view is that Mr Obuchi will unveil a supplementary budget in the late summer, extend his term and dissolve the lower house in September to hold national elections in October. But that scenario assumes relatively smooth sailing for the next five months at least. Deny it as it may, the LDP may not want to quash hopes of a supplementary budget just yet.

Indian central bank sets out reform plans

By Krishna Guha in Bombay

In a deliberate display of business as usual, Bimal Jalan, India's central bank governor, yesterday set out the bank's reform agenda for the next six months as political uncertainty grew in New Delhi.

The package of measures included moves to deepen India's debt and money-markets, and a half-point cut in the cash reserve ratio, which will boost banks' lendable resources by about Rs33bn ($772m).

Mr Jalan said the Indian markets had taken the weekend fall of the coalition government – led by the Bharatiya Janata party (BJP) – in their stride and there was no cause for concern.

"We have not seen much turmoil in the financial markets. They are quite stable, though there are blips from time to time," he added. "We have not taken any special measures. This is normal, routine policy."

Mr Jalan said the Reserve Bank of India would continue its efforts to strengthen the financial sector and support the flagging economy irrespective of events in the capital, where the opposition Congress party yesterday struggled to line up support for a new administration. "They are two different aspects of our national life," he said.

Earlier this week rival parties agreed to debate the BJP's February budget today. The crucial legislation is expected to take two days to pass, and no sign of the shape of a future government is expected before tomorrow.

The reforms outlined yesterday were cautious rather than ground-breaking, with a raft of technical initiatives to improve liquidity in the call and money markets, and establish benchmarks in government debt. Other measures included modest steps to tighten prudential norms, changes to the way banks record re-scheduled loans, and incentives to lend more venture capital.

Foreign portfolio investors will be permitted to hedge a greater proportion of their currency risk than at present.

Reviewing the state of the economy, Mr Jalan said growth last year was "somewhat lower than expected" at 5.8 per cent. Exports fell 2 per cent in dollar terms in the first 10 months.

Money supply (M3) grew by 17.8 per cent. Inflation was subdued at 5 per cent at the end of the year. Mr Jalan also took comfort from India's foreign exchange reserves, up $3.1bn last year.

"It should be possible to maintain reasonable price stability during the year without taking recourse to monetary measures," he said.

'The paramount need for India is to raise its industrial growth'

India's paramount need was to raise industrial growth, which fell from 6.9 per cent to 3.9 per cent last year, he said.

The Reserve Bank will target money supply growth of 15.5-16 per cent in the current financial year. It will adopt a multi-indicator approach to setting interest rates, and will use the cash reserve ratio as its preferred tool for adjusting liquidity.

Mr Jalan said the market had been able to absorb last year's record government borrowing without a rise in interest rates. But he noted that 33 per cent of new borrowing now went to repay maturing debt, up from 11 per cent in 1992.

"Obviously, this process cannot go on indefinitely," he added.

Kim attacks Korean Air over safety failures

By John Burton in Seoul

Kim Dae-jung, the South Korean president, yesterday called for a management change at Korean Air (KAL) as he criticised the national carrier for allegedly putting business expansion ahead of flight safety.

The crash last week of a KAL cargo aircraft at Shanghai was the sixth accident the airline has suffered in the past 18 months, including a passenger jet flying into a Guam hillside killing 226 in 1997 and several botched landings.

Delta Air Lines of the US and Air Canada suspended their code-sharing arrangements with KAL after the Shanghai crash. "This gives a fatal blow to Korea's credibility," said Mr Kim.

The president's remarks are expected to increase pressure on Cho Yang-ho, the KAL president, to resign. He is the eldest son of Cho Choong-hoon, the founder and chairman of the Hanjin transport group, which bought KAL from the government in 1969.

The presidential statement marked an escalation in Mr Kim's criticism of the management by family owners of Korea's big conglomerates, or *chaebol*, amid suggestions that they should be replaced by professional executives.

Mr Kim is expected to meet the heads of Korea's five top *chaebol* on Monday to review their progress in restructuring and management reforms.

The government has warned it might take control of *chaebol* units through debt-for-equity swaps with nationalised banks and appoint new managers if reforms are slow.

"Using this as an opportunity, we must solve the problems related to family-run management," said Mr Kim, who blamed KAL's rigid and authoritarian management culture for low staff morale.

He told a cabinet meeting that a professional management team had to step forward that would give priority to protecting human life.

Mr Kim blamed the numerous accidents on a corporate emphasis on expanding routes instead of employing good engineers and pilots.

Analysts said an authoritarian cockpit culture fostered by military-trained captains and English language problems in communicating with international airports were the main causes of KAL's problems.

● Workers at Daewoo Heavy Industry yesterday went on strike in a sign of escalating labour tensions over proposed job cuts amid record unemployment of nearly 9 per cent. The workers are members of the Korean Confederation of Trade Unions, which is launching a "spring offensive" against corporate restructuring that threatens jobs.

Deflation recorded in NZ

By Terry Hall in Wellington

Prices in New Zealand fell by 0.1 per cent in the year to March, the first time since 1946 that the country recorded deflation over a 12-month period, Statistics New Zealand reported yesterday.

The figure is the same as that in Japan, with the world's lowest inflation.

The fall in the Consumer Price index was driven by a sharp fall in interest rates that followed a substantial easing in monetary policy last year by the Reserve Bank. On a quarterly basis prices fell by 0.3 per cent after dropping by 0.8 per cent in the December quarter.

Two successive quarters of deflation is also a first since 1946. The Reserve Bank, which predicted the fall, uses a different measure of inflation, which excludes credit and interest charges to manage monetary policy.

Chinese growth remains robust

By James Harding in Shanghai

China yesterday reported strong but slowing economic growth of 8.3 per cent in the first quarter of 1999, compared with the same period a year before, as hefty government spending failed fully to offset the decline in foreign investment and exports.

The robust headline growth figure comes despite component statistics which suggest a more patchy picture of the Chinese economy.

Foreign direct investment fell by 14.6 per cent in the first three months of this year to $7.34bn, compared with the same period in 1998, it was announced yesterday. This added to expectations foreign investment into China will fall this year for the first time in the 1990s.

Exports, which have not registered negative growth for 15 years, have fallen by 7.9 per cent year-on-year in the first quarter. Beijing said last week deflation was showing no sign of letting up after more than a year and a half, as the retail price index fell by 3.2 per cent in March year-on-year.

The overall and still emerging impression is of a resilient economy in mixed health. Gross domestic product was Rmb1,678bn ($202bn) in the first three months of this year, a rise of 8.3 per cent, the state statistical bureau said yesterday.

Zhu Rongji, China's prime minister, said on his tour of the US last week that he expected China to outstrip the 7.8 per cent growth achieved last year as well as the growth target of 7 per cent set by Beijing for 1999.

China's first-quarter growth, though, still represents a deceleration from the last quarter of 1998, when the Chinese economy grew by roughly 9 per cent, state statisticians said.

Combined fixed asset investment by state and foreign-invested companies grew by 22.7 per cent in the first quarter of this year compared with the same period in 1998.

Hubco clash closer to being resolved

By Farhan Bokhari in Islamabad

Pakistan's Hubco power company – locked in a two-year-old dispute with the government of Nawaz Sharif, the prime minister – has signed a "standstill agreement" with the government in the first significant sign that the dispute may be heading for resolution.

The two sides have agreed not to pursue further litigation, opting instead to resolve their dispute through negotiations.

The status of ongoing suits, such as the one filed by the state-owned Water and Power Development Authority (Wapda) against Hubco in a Pakistani court, and Hubco seeking arbitration through the International Chamber of Commerce in London, remains unclear.

Officials said the two sides would seek ways to reach out-of-court settlements where possible, without compromising their respective positions.

Hubco, whose largest shareholders include Britain's National Power, last year saw the government unilaterally cut the tariff the company was promised under an agreement signed with the regime of Benazir Bhutto, the former prime minister.

Khurshid Hussain, Hubco's chief executive, said: "It could provide a conducive environment in which the two parties can enter into discussions to settle disputes in a commercial manner."

Mr Hussain said the company was willing to discuss all issues including the cost structure of its tariff. Analysts suggested the resolution was made possible under pressure from the World Bank.

Separately, officials confirmed that Lt-Gen Zulfikar Ali Khan, chairman of Wapda, met Pakistan's other 19 private power generation companies in what may be the first of a series of talks aimed at resolving the tariffs dispute.

WTO TALKS CHARGES OF FAILURE TO IMPLEMENT AGREED MEASURES AHEAD OF NEGOTIATIONS ON AGRICULTURAL TRADE

Australia attacks EU and US over barriers

By Gwen Robinson in Sydney

Australia has launched a campaign against what it describes as backsliding by the European Union and the US in the lead up to World Trade Organisation agricultural trade negotiations.

An Australian government study claims that measures agreed in the last round of agricultural trade negotiations, concluded in 1994, resulted in "higher actual or potential barriers to trade than previously existed".

The report highlights Australia's strategy of targeting indirect as well as traditional forms of agricultural protection among large producing countries ahead of the coming round of WTO talks. It also focuses on issues such as genetically modified organisms, food safety measures and the role of state trading enterprises.

Tim Fischer, trade minister and deputy prime minister, said yesterday the EU had missed an opportunity for real reform of its Common Agricultural Policy at the Berlin summit last month. He said the Agenda 2000 reform package had damaged prospects for further reform in Europe. "There is now likely to be further intervention and a renewed build-up of unwanted surpluses which will continue to be off-loaded on to world markets," he said.

Mr Fischer's remarks were reinforced by the Cairns Group of 15 farm exporting countries. As the founding member, Australia has helped shape the group's agenda, including its vigorous lobbying for EU and US agricultural reform.

In a statement distributed by Australia's mission in Geneva, Cairns Group countries said the EU reforms were insufficient as a contribution to the WTO talks and would "continue to shield EU producers from international market signals".

The Cairns Group, named after the Australian city where it was formed during the 1986-93 Uruguay Round of trade talks, includes developed countries – Australia, Canada and New Zealand – as well as emerging economies – Argentina, Brazil, Chile, Colombia, Fiji, Indonesia, Malaysia, Paraguay, Philippines, Thailand, Uruguay and South Africa.

The group is arguing for a mulitilateral WTO accord on liberalising farm markets in the same way the Uruguay Round opened up markets for non-farm goods in the early 1990s.

The US, meanwhile, has also come under Australian fire over agricultural protectionism – notably its recent proposal to adopt quotas or tariffs on imports of Australian lamb. The US administration's International Trade Commission last month proposed a tariff of 20 per cent on all lamb imports above 1998 levels. The US is Australia's largest lamb export market.

Mark Vaile, Australia's agriculture minister, said Australia was concerned US policies were sending the "wrong signal" on reform. These included assistance to US farmers to ease the impact of falls in commodity prices.

European Union rejects plea for farm policy changes

Franz Fischler, the European Union's acting agriculture commissioner, yesterday rejected the suggestion by the Cairns Group of farm exporting countries that the EU should make further agriculture reforms, **Michael Smith writes from Brussels.**

The EU's recent reforms were "not an opening bid for the WTO negotiations," he said, but rather "the policy with which the outcome of these negotiations must be compatible".

If the Cairns statement reflected its WTO position, "it is quite clear we have large differences to narrow".

Mr Fischler said the Cairns criticism of the EU farm aid regime ignored the contribution the reforms had made towards stabilising world prices and the fact that the EU was the world's largest importer of food. Many of the EU's imports were bought from developing countries on conditions "much more favourable than those provided by Cairns countries".

Mr Fischler said the Cairns Group was ill-informed about EU farm policy.

China pursues banking competition reforms

By James Harding in Shanghai

China yesterday announced the injection of Rmb10bn ($1.2bn) into the first asset management company to handle the bad debts of a state bank.

The move is part of efforts by the Chinese financial sector to prepare for greater foreign competition as it pursues its campaign to join the World Trade Organisation.

Beijing is understood to be offering slow but potentially substantial liberalisation of its domestic banking market.

The full scale of China's offer for the financial sector is still unknown, but there are reports that Beijing has made significant concessions to allow foreign banks gradual access first to Chinese corporate borrowers and eventually to individual customers.

The state-owned International Finance News said yesterday: "Restrictions on foreign banks will be phased out after China joins the WTO... Foreign banks will compete with domestic banks, capturing a bigger market share and attracting customers as a result of the more advanced management practices."

Under the latest concessions, foreign banks may be allowed to provide local currency-lending services to Chinese companies two years after WTO entry, and they would be able to serve individual customers after five years. China has yet to conclude a deal to join the WTO, but an agreement looks increasingly likely before the end of the year.

The possibility of foreign banks offering Chinese individuals a full range of consumer banking services will rattle China's state banks, which are buoyed by the high levels of Chinese savings deposits despite the weight of their bad debts.

China Construction Bank, one of the big four state commercial banks, yesterday offered details of how it planned to improve its balance sheet by repackaging and selling on bad debts through an asset management company – a move likely to be the model for the other big four state banks.

China Cinda Asset Management will have registered capital of Rmb10bn provided by the finance ministry, the China Construction Bank said in a statement yesterday.

The debt will be sold both to foreign and Chinese investors. Cinda will be able to ask the central bank for permission to relend, issue bonds, underwrite shares or bonds and securitise debt. Cinda will be exempt from all business taxes.

No figures were given for the China Construction Bank's bad debts. However, there have been estimates that Cinda will take on as much as Rmb300bn in bad debt.

Beijing also aims to restructure its non-bank financial sector following the failure late last year of a prominent and heavily indebted investment company, the Guangdong International Trust and Investment Corporation (Gitic).

US tops economy rankings

By Frances Williams in Geneva

The US has maintained its commanding lead in the latest world competitiveness rankings compiled by the International Institute for Management Development.

With the exception of Singapore, most east Asian economies have slipped down the rankings as a result of the region's economic turmoil.

Norway, hit by falling oil revenues, was another loser.

Meanwhile, the collapsed Russian economy remains at the bottom of the competitiveness league.

IMD, the Lausanne-based international business school, defines competitiveness as the ability of a nation to provide an environment that sustains the competitiveness of enterprises. The rankings, for 47 countries, are based on 287 criteria grouped into eight factors such as economic performance, research and development, infrastructure and openness to the outside world.

World competitiveness
Top 20

Country	1999 score	99 rank	98 rank
US	100.0	1	1
Singapore	78.7	2	2
Finland	74.0	3	5
Luxembourg	71.3	4	9
Netherlands	71.1	5	4
Switzerland	69.6	6	7
Hong Kong	69.0	7	3
Denmark	65.7	8	8
Germany	64.5	9	14
Canada	64.1	10	10
Ireland	63.9	11	11
Australia	63.6	12	15
Norway	60.9	13	6
Sweden	60.7	14	17
UK	60.6	15	12
Japan	60.2	16	18
Iceland	58.4	17	19
Taiwan	57.4	18	16
Austria	58.2	19	22
New Zealand	58.1	20	13

Source: IMD International

Two-thirds of the criteria are derived from statistical data and one-third from a survey of over 4,000 business executives. But there is inevitably a tendency for assessments of competitiveness to reflect current success.

This year's IMD report also shows that Japan, the UK and Sweden among others could significantly improve their competitiveness scores.

The World Competitiveness Yearbook 1999, SFr800+, available June 1999 from IMD, PO Box 915, CH-1001 Lausanne, fax +41 21 618 0204, email wcyinfo@imd.ch, website http://www.imd.ch/wcy.html.

Taiwan trumps anti-dumping action by US

By Mure Dickie in Taipei

Taiwanese companies are much more used to fending off dumping accusations than issuing such complaints themselves: the island's cost-cutting skills and aggressive exporting culture have long made it the bane of competitors overseas.

Now, however, Taiwan's semiconductor industry is swapping roles, charging Micron Technology of the US with selling its D-Rams, or dynamic random-access memory chips, at below cost.

The case reflects the growing significance of Asia's "Silicon Island" as both a producer and a market for computer chips – and also the growing willingness of Taiwanese companies to use anti-dumping procedures to guard their markets.

The government is investigating the complaint against Micron, which last year won a similar action against Taiwanese companies in the US and which has another case pending.

Taiwanese industry officials argue Micron was running so scared of their growing chip-making clout that it levelled anti-dumping charges against them even as it dumped its own products on the island.

Micron officials dismiss the accusations, suggesting Taiwanese companies might be adopting attack as the best form of defence. "It could be seen as an attempt to avert attention from the fact that they do have a dumping decision against them," says Amy Kleiner, of Micron. "We intend to vigorously dispute any charge."

In a case brought by Micron, a batch of Taiwanese semiconductor companies were last year hit with punitive tariffs after being found by the US government to have dumped S-Rams, another kind of memory chip. A complaint involving alleged D-Ram dumping is to be decided in August.

Hu Genda, president of the Taiwan Semiconductor Industry Association (TSIA), suggests Micron fears it will face overpowering competition if Taiwan succeeds in becoming as big a player in memory chips as Japan or South Korea. "I think that is the reason why Micron is raising a wall against our industry at such an early stage," he says.

Annual revenues from Taiwan's semiconductor industry now exceed US$9bn, up from just over US$5bn in 1994. Its electronics industry now consumes more than US$2bn of D-Ram chips a year, accounting for 15 per cent of the world market and making the island a net chip importer.

TSIA says Micron controls 10 per cent of the Taiwanese market, and while the current case also cites US units of South Korea's Samsung and Hyundai Electronics, Micron is the main target.

Micron suggested the Taiwanese might be adopting attack as the best form of defence

Mr Hu acknowledges action against the US company would probably not have been taken if it had not launched its suit against the Taiwanese, although he says there is "strong evidence" Micron dumped D-Rams.

An official of Taiwan's Board of Foreign Trade said complaints against Taiwanese far outnumbered those by the island's businessmen – but noted local industries were becoming more willing to take anti-dumping action.

Taiwan recently slapped anti-dumping tariffs on steel products from Poland, Russia, India, and South Korea – a welcome sight for local steelmakers that have long suffered such punishment abroad.

WORLD ECONOMIC OUTLOOK PROSPECTS FOR GLOBAL ECONOMY DEPEND ON WHETHER US GOES INTO GRADUAL OR ABRUPT DECLINE

Slowdown in US is now inevitable, says the IMF

By Robert Chote, Economics Editor, in Washington

The 1990s have been a disappointing decade for the world economy. Thanks to two significant global slowdowns, growth in world output is likely to have averaged just 3.1 per cent a year, the IMF said yesterday, weaker than either the 1970s or the 1980s.

During this period, Japan has experienced a decline in *economic activity unprecedented* among major industrial countries in the post-war era. Much of Europe has suffered stubbornly high unemployment and persistently weak growth. And a succession of emerging market economies have fallen victim to painful financial crises.

"Although financial fragilities and policy shortcomings played important roles in the build-up to the recent emerging market crises, the unsatisfactory performance of Japan and much of western Europe since the early 1990s also contributed," the Fund said in its World Economic *Outlook*.

"Japan's and Europe's large and growing surpluses of domestic saving over domestic investment not only meant that they were able to finance the persistent balance of payments deficit of the US, they also enabled global financial markets to channel large net capital flows into emerging markets."

These capital flows fuelled domestic overheating and widening current account deficits. They made emerging market economies increasingly vulnerable to adverse external developments, including changes in cyclical conditions among the big industrial countries, fluctuations in the world's main exchange rates and shifts in investors' perceptions of and aversion to risk.

"Alone among the major countries and regions, only the US may be considered to have achieved a fully satisfactory economic performance in the 1990s, with a *relatively* shallow recession in 1990-91 having been followed by an unusually long economic expansion," the outlook said.

The Fund believes that some slowdown in the US economy is now inevitable. The outlook for the world economy depends on whether this deceleration is gradual and orderly or abrupt and disruptive. It also depends on the response of policymakers and economic agents elsewhere.

"If the US economy were to slow significantly, which seems both likely and desirable at a relatively early stage, the European Union *may be the only region of* the world with both the scope to offset the consequences of the adverse external environment for its domestic economy and the potential to help the world avert a further broadening and deepening of the current slowdown," the Fund said.

With domestic demand growing by 5 per cent in 1998, US consumers and investors were responsible for almost half the growth in world demand last year.

Private sector optimism in the US has been fuelled by an exceptionally encouraging combination of economic conditions – including near price stability, low interest rates, low unemployment and a rising government budget surplus. This confidence effect has been reinforced and reflected by a buoyant stock market.

But with US unemployment at a 29-year low of 4.2 per cent, the expansion is increasingly constrained by trends in underlying productivity and the labour force.

Among major countries only the US achieved a satisfactory performance

which together point to a sustainable growth rate of 2.25 to 2.75 per cent a year. In addition, higher long-term interest rates will weaken demand, while consumer spending cannot outstrip personal incomes for ever.

"Given the absence of inflationary pressures that might lead to a tightening of financial conditions, however, it seems quite likely that the slowdown in demand will be gradual and moderate: in short, a soft landing is possible," the outlook argues.

But a harder landing is easy to imagine, especially if growth fails to slow and domestic inflation picks up. The likely response of the Federal Reserve and the bond market might well trigger a sharp fall in share prices, which are high in relation to historical experience as well as current and prospective corporate earnings. This could slow domestic spending quite abruptly, especially in the light of the deteriorating balance between private saving and investment in the US that has accompanied the recent expansion.

Fears of a hard landing in the US have been fuelled in part by the experiences of Japan, Finland, Sweden and the UK following similar periods of falling net savings in the 1980s. To assess the possible impact, the IMF examines a scenario in which the household saving rate rises in response to a 30 per cent fall in share prices, with markets overseas dropping by 15 per cent as a result. At the same time it is assumed that the dollar falls 10 per cent as foreign investors become less willing to finance the burgeoning US current account deficit.

Comparing this with the Fund's central forecast of a soft landing, output growth in 2000 could fall from 2 to 0.1 per cent in the US, from 2.9 to 1.7 per cent in the euro-zone, from 0.3 to minus 0.8 per cent in Japan and from 4.9 to 4.1 per cent in the developing economies, with the impact declining subsequently. After five years the US current account deficit would have dropped by more than $280bn, while the current account surpluses in the euro-zone and Japan would have shrunk by $111bn and $90bn respectively.

Current account imbalances between the world's three main economic blocks have widened in recent years, reflecting stronger growth in the US economy than in Japan and Europe. According to the Fund, this has created "significant risks for the world economy through a potential rise in protectionist pressures, or excessive and potentially destabilising movements in exchange rates among the major currencies".

The Fund's best guess is a warily optimistic one. It assumes that financial market conditions continue to improve for emerging markets, that the US experiences a soft landing, that growth in the euro-zone remains relatively resilient and that the Japanese recession bottoms out this year. If so, world growth should pick up again in 2000.

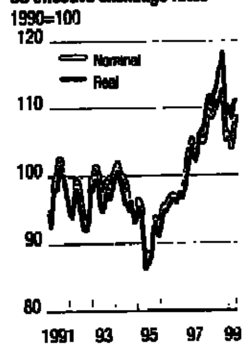
But what if there is a hard landing in the US, emerging market economies remain starved of finance, the recent weakness in the euro-zone economy persists and Japan's economic problems drag on? "If these risks materialise, the global slowdown could widen and deepen in 1999 and 2000 with recovery being delayed until 2001 at the earliest."

In which case the disappointing decade would come to a truly dismal end.

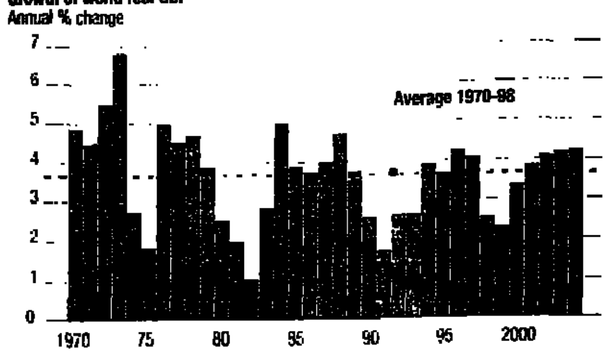
See Editorial Comment

World Economic Outlook

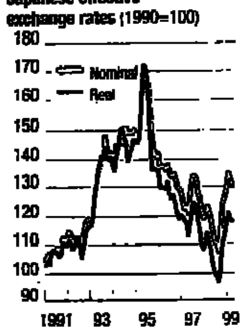
US effective exchange rates 1990=100



Growth of world real GDP Annual % change



Japanese effective exchange rates (1990=100)



Source: IMF

Real GDP growth Annual % change

	1998	1999*	2000*
US	3.9	3.3	2.2
Japan	-2.8	-1.4	0.3
Germany	2.8	1.5	2.8
France	3.1	2.2	2.9
Italy	1.4	1.5	2.4
UK	2.1	0.7	2.1
Canada	3.0	2.6	2.5
Euro area	2.9	2.0	2.9
Newly industrialised Asian economies	-1.5	2.1	4.5
Developing countries	3.3	3.1	4.9

* current projections

Michel Camdessus, IMF managing director

EMERGING MARKETS

Optimism grows in wake of financial upheavals

By Robert Chote

The International Monetary Fund sounded a note of cautious optimism for the victims of the emerging market financial crises of the last two years, arguing that the Asian nations are near the bottom of their economic slumps and that the Brazilian economy should start recovering later this year.

Recovery appears under way already in South Korea, with an upturn starting late last year. The Fund has revised its growth forecasts upward for Korea and Singapore, while among the Asean nations small downgrades for Indonesia and Thailand are more than offset by a more optimistic outlook for Malaysia.

Output in the Asean nations is expected to fall 1.1 per cent this year, compared to a 9.4 per cent decline in 1998. Growth is then expected to rebound to 3 per cent in 2000. The Fund expects growth of 3 per cent in Thailand, 2 per cent in Malaysia, 2.5 per cent in Indonesia and 4.6 per cent in Korea.

"Progress toward economic recovery has been advanced by financial stabilisation, with strengthening exchange rates allowing monetary policies to be relaxed further; by supportive fiscal policies; and by improvements in confidence domestically and abroad," the World Economic Outlook said.

"However, to ensure that the nascent recoveries in the Asian crisis economies take hold and develop into a new period of sustainable growth, considerable further progress is needed with the structural reforms that have been initiated and are beginning to take effect," the outlook added.

Growth in China is expected *to slow from 7.8 per cent* last year to 6.6 per cent this year, before picking up again slightly to 7 per cent next year. But the Fund warned that there were significant downside risks which could affect the outlook for other countries in Asia.

"These risks arise from slowing external demand, financial sector weaknesses, concerns about cutbacks in external financing to Chinese companies following the failure of a major international trust and investment corporation, and past overbuilding and excess inventory accumulation," the outlook said.

The Fund said this indicated the need for reforms of the financial sector and state-owned enterprises. The substantial boost from fiscal policy would need to be reduced gradually from next year and interest rate policy needed to be cautious to avoid fresh pressure on the exchange rate.

The collapse of Brazil's exchange rate peg had prompted sharp downgrades in growth prospects for Latin America since the Fund's last forecast in December. The Brazilian economy was expected to shrink by 3.8 per cent this year, with contractions also forecast for Argentina, Ecuador, Uruguay and Venezuela.

"The risks of further contagion as investors reassess their portfolios, as well as the economic adjustment already required by the adverse developments of 1997-98, call for stringent policy discipline, even in the face of weakening growth, and a reinvigoration of reform efforts," the outlook warned.

But the Fund takes heart from what Michael Mussa, its chief economist, called a "remarkable" recovery in market confidence. He expects interest rates to be substantially lower in the second half of this year, with

'The risks of further contagion as investors reassess their portfolios... call for stringent policy discipline'

the economy picking up again after almost a year of recession. Growth is expected to rebound to 3.7 per cent next year, with all Latin American countries recording increases in output.

Russia's economy is forecast to contract 7 per cent this year before stabilising in 2000. "In the absence of coherent stabilisation and reform policies, however, there would remain a risk of high inflation and continued economic contraction; access to international financial markets would be unlikely to resume; and much of the progress tentatively achieved in some areas during 1991-98 would be lost."

Russia's problems have been exacerbated by falls in oil and other commodity prices. These are expected to remain weak, making life difficult for other commodity producers. Growth is expected to rise from 3.2 per cent this year to 5.1 per cent next year in Africa and from 2 to 3.3 per cent in the Middle East.

EURO-ZONE AGGRESSIVE LABOUR MARKET CHANGES NEEDED TO TACKLE CHRONIC HIGH JOBLESS TOTAL

Structural reforms 'could halve unemployment'

By Robert Chote

The European single currency zone should be able to halve its underlying unemployment rate over the next few years, if member countries pursue aggressive structural reforms and the European Central Bank runs a modestly expansionary monetary policy, the International Monetary Fund said yesterday.

The Fund said structural unemployment probably averaged 10 per cent of the workforce across the euro-zone, with the big economies of Italy, France and Germany a little below this level. "The ultimate objective of structural labour market reforms is to reduce the equilibrium rate of unemployment to more acceptable levels – say to around 5 per cent or lower," the World Economic Outlook said.

Cutting unemployment to this level would increase output and incomes in the euro-zone by about 4 per cent, which would also allow European governments to eliminate their structural budget deficits. "Alternatively, the resulting fiscal improvements could be used to reduce the average income tax rate or value added tax rate by substantial proportions," the Fund said.

The Fund described European unemployment as a "major, chronic problem". It noted that labour market reforms have yet to tackle the roots of structural joblessness in many euro-zone countries, including the largest three. It warned that some proposed cures – including legislated reductions in working hours, as in France – would at best have little effect or even make things worse.

With exchange rate adjustment ruled out within the euro-zone, the need for structural reform is all the more urgent. "What is less clear is whether Emu will provide sufficient incentive to governments, and to the other social partners, to ensure that such efforts are now effectively made, so that the potential benefits of the single currency can be fully harnessed and some of its major risks avoided".

The Fund said that concerted structural reform on a number of fronts would be necessary, backed up with a national consensus recognising their importance. Active labour market policies – such as training and job subsidies – could be helpful, as might incomes policies in some circumstances.

Structural rigidities help explain why increases in productivity and labour demand over the last 30 years have been used in Europe to raise real wages, but in the US, to increase the number of people employed. In both regions unemployment increased during recessions, but in Europe it has failed to decline subsequently, ratcheting up the jobless total over time.

Sensible structural reforms include the elimination of market distortions, the removal of regulatory constraints on contracts between employers and employees, and measures to reintegrate unemployed and disenfranchised workers into the labour force. Michael Mussa, the Fund's chief economist, said that the Netherlands, Ireland, the UK and Denmark demonstrated what could be achieved.

But at the same time macro-economic policy in Europe needed to accommodate the fall in structural unemployment that should result, rather than choking it off because of fears of inflation. "The preconditions for accommodative monetary policy are satisfied at the present time: inflation has been reduced well below the 2 per cent ceiling of the target range in the euro area, and leading indicators of inflation are generally benign," the outlook said.

ISRAELI CAMPAIGN NETANYAHU APPEARS TO BE PINNING HIS HOPES ON SECOND ROUND CALCULATIONS

Likud despondent as polls predict Barak win

By Judy Dempsey in Jerusalem

With less than four weeks to Israel's parliamentary and premiership elections on May 17, the campaign remains one of the most lacklustre in recent history.

For whoever wins – the final run-off is expected to be between Benjamin Netanyahu, prime minister, and Ehud Barak, leader of the opposition Labour party and the left-of-centre One Israel coalition – Israel faces crucial decisions.

It will have to enter final status talks with the Palestinians, intended to establish Israel's border and reach a settlement over Jerusalem.

These issues should provide much excitement for Mr Netanyahu. Yet his Likud party is despondent. In-fighting among campaign managers continues. Slogans have little relevance. The prime minister seems flustered.

Mr Netanyahu was elected in May 1996, on the platform of providing peace with security. Then, half the voters were sceptical of the Oslo peace accords Labour signed in 1993 and frightened by the wave of subsequent suicide bombings by the Islamist Hamas movement.

Yet although there have been few bomb attacks since 1996, and even Shaul Mofaz, chief of staff, said this week that security co-operation

Israel election

had improved with the Palestinians, Mr Netanyahu has saddled himself with a paradox. If Israel is more secure and security co-operation is better, why is he not proceeding with the peace process? His advisers decline to answer.

And even Mr Barak has not challenged Mr Netanyahu on the issue – which political analysts said he could easily do – and score political points.

The Likud camp realises it cannot escape the paradox, let alone explain why the master of spin seems to be losing his shine.

Opinion polls, far from reliable, are not helping morale in Likud. They predict that Mr Barak could beat Mr Netanyahu in a second round. Such a run-off, scheduled for June 1, is inevitable if Yitzhak Mordechai, Centre party leader and former defence minister, stays in the race despite his own poor showing in the polls.

"I wonder is it all an act by Netanyahu to disarm his opponents, or are we seriously in trouble?" asked one of the prime minister's colleagues. "All I know that is that if Netanyahu continues the way he is, we will be beaten. I'm not kidding you." The prime minister won by just 30,000 votes in the 1996 elections.

"We have to rouse grassroots activists from their lethargy," said a Likud campaigner. "Look at Barak's people. They are young, energetic, motivated. We have no motivation, not even in Jerusalem, our territory."

It is not much better up north. The swathes of kibbutzim, Israeli Arab towns and new hightech industrial parks are plastered with Barak posters and those of Azmi Bishara, Israel's first Arab to contest the premiership.

Down south, in the poor towns of the Negev, once the bastion of Likud, party supporters complain about how little Mr Netanyahu has done to ease unemployment which has risen two percentage points to 8.6 per cent since he was elected in May 1996.

Even slogans drawn up by Arthur Finkelstein, Mr Netanyahu's US spin doctor, are having little impact, described by one Likud supporter as being "out of sync with the mood".

Mr Finkelstein has resuscitated themes of the 1996 campaign when Israel was bitterly divided by the peace process, traumatised by the assassination by an Orthodox Jew of Yitzhak Rabin, former Labour prime minister, and demoralised by a wave of suicide bomb attacks on civilians.

Netanyahu: appears flustered and slogans seem out of touch

Barak: failed to challenge Likud leader on peace 'paradox'

The slogans say Mr Barak will divide Jerusalem, that he is good for Yassir Arafat, president of the Palestinian Authority, and that he will give away Israel to the Palestinians.

Yet, as political analysts keep insisting: do not write off Mr Netanyahu. His camp, they say, is banking on three factors to return him to power: Mr Mordechai, Mr Bishara and the Haredim, ultra-Orthodox Jews.

If Mr Mordechai stays in the race, the Labour and Likud vote will be split. In the second round, Likud activists believe Likudniks who voted for Mr Mordechai could not ideologically vote for Mr Barak. They would return to the Likud fold.

Mr Netanyahu's team also believes that Mr Bishara will take votes from Mr Barak in the first round. In the second, they calculate, Israeli Palestinians will abstain. As for the Haredim, Likud believes the rabbis will instruct them to turn out in the second round.

Some Likud activists say Mr Netanyahu is waiting for the second round to unleash his real campaign. Others warn against such a strategy. "We have to get our campaign together now," said an adviser to Mr Netanyahu. "Nothing can be taken for granted. Anything can happen between now and May 17."

Shell says European suppliers 'unethical'

By Robert Corzine in London

Royal Dutch/Shell, the Anglo-Dutch oil group, says it would like to cut its worldwide links with several large European-based suppliers because of unethical behaviour, but is constrained from doing so for legal reasons.

Mark Moody-Stuart, Shell's chairman, said there had been several cases where the employees of European suppliers had tried to bribe oil company employees to secure contracts: "I would dearly love to strike them off the list, but we would probably get in trouble with the European Union."

He said individual country bans were possible, but it would be legally difficult to impose a global blacklist on such companies.

Presenting this year's Shell Report on its worldwide safety, environmental, ethical and social performance, Mr Moody-Stuart said the behaviour of contractors and suppliers posed problems for companies such as Shell, which last year cancelled 69 contracts because of what it called a failure to adhere to its ethical, health, safety or environmental policies.

One joint venture in an unidentified country was also terminated because of ethical concerns.

Mr Moody-Stuart said Shell's policy was to terminate contracts or relationships if "a company's activities in relation to our business was unethical."

He said unethical behaviour outside the relationship with Shell would not result in termination. If that were to be the case, "there are some big oil companies we couldn't be in partnership with".

He rejected suggestions that Shell relied on third parties in places such as Nigeria to tackle tasks that it was not prepared to carry out itself.

As for Shell's social responsibilities in the oil-rich Niger Delta – where it is spending about $35m a year on development projects – Mr Moody-Stuart said the scope of the development need was beyond the means of one company. "It is impossible for Shell to meet the demand," he said.

The report said progress toward reconciliation between the company and the Ogoni people "has been slow, but steady". Shell said it is again involved in community projects in Ogoniland, including the restoration of the electricity system that was disrupted due to political unrest in the region. The Niger Delta accounts for most of Nigeria's oil production, but the local community has seen little benefit.

Mr Moody-Stuart said Nigeria, which elected a civilian president in February, had made "remarkable progress" in recent months but that "having a democracy does not remove the problem." He also signalled that Shell expected to remain under pressure from residents of the Niger Delta, who he said had damaged Shell's installations to attract attention to their economic plight. "I do not expect our path in Nigeria to be entirely smooth," he said.

Elsewhere, the report said three Shell employees were sacked last year for bribery, compared with 23 in 1997. Three more cases await a decision. It also said it had cut its emissions of greenhouse gases by five per cent on 1990 levels, and was on target to cut them by a further five per cent by 2002.

Mr Moody-Stuart said Shell remained committed to global sustainable development even though it is mainly focused on improving its poor financial performance. That Shell continued to report on its worldwide economic, environmental and social impact proved that commitment.

Total spending last year on what Shell calls "social investment" was $92m. But it said the 18.1 per cent rise in such spending last year was in part due to improved data gathering and reflected a better knowledge of the contributions of their subsidiaries around the world.

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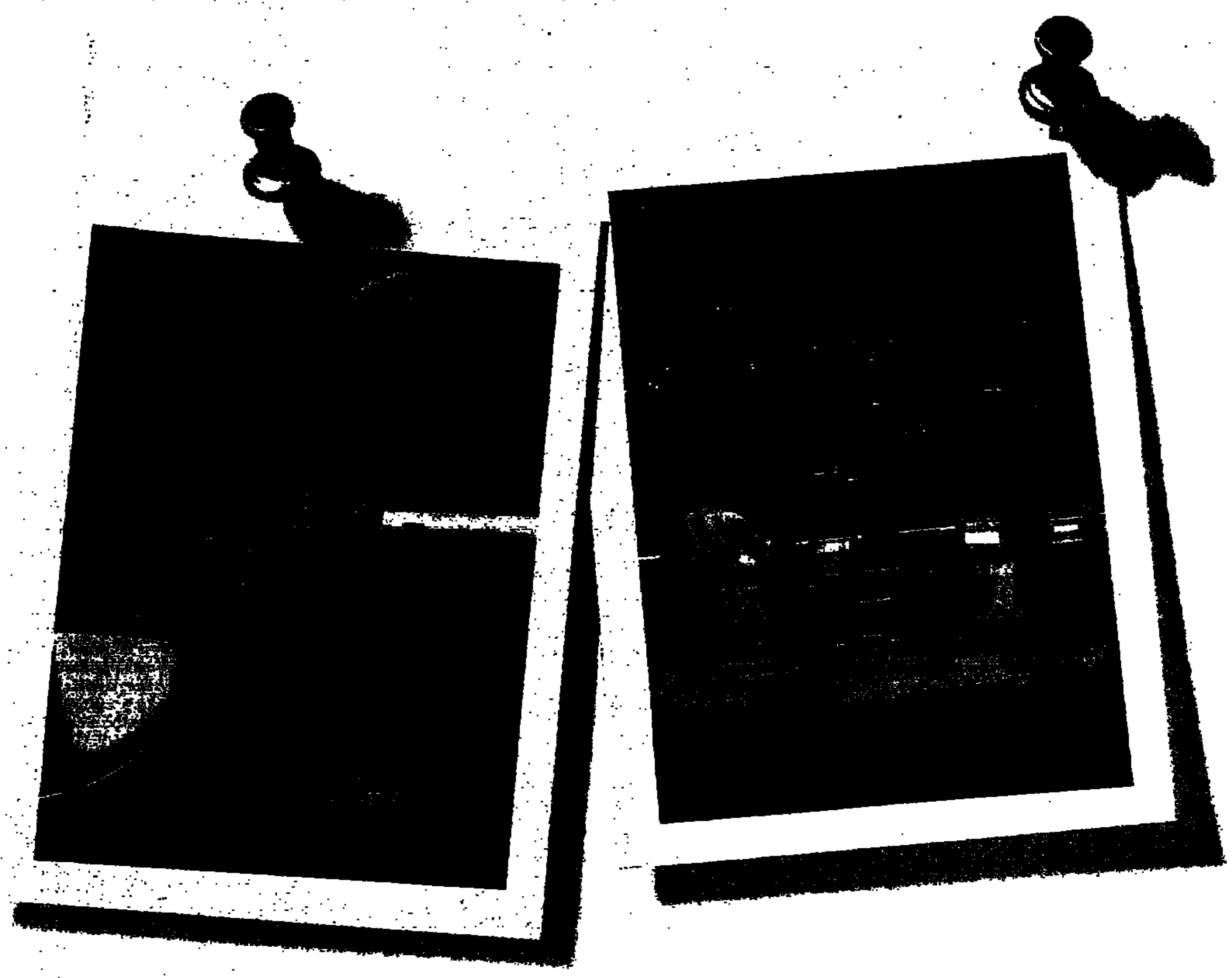

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JAN NEUTEBOOM, Manager, Software Development

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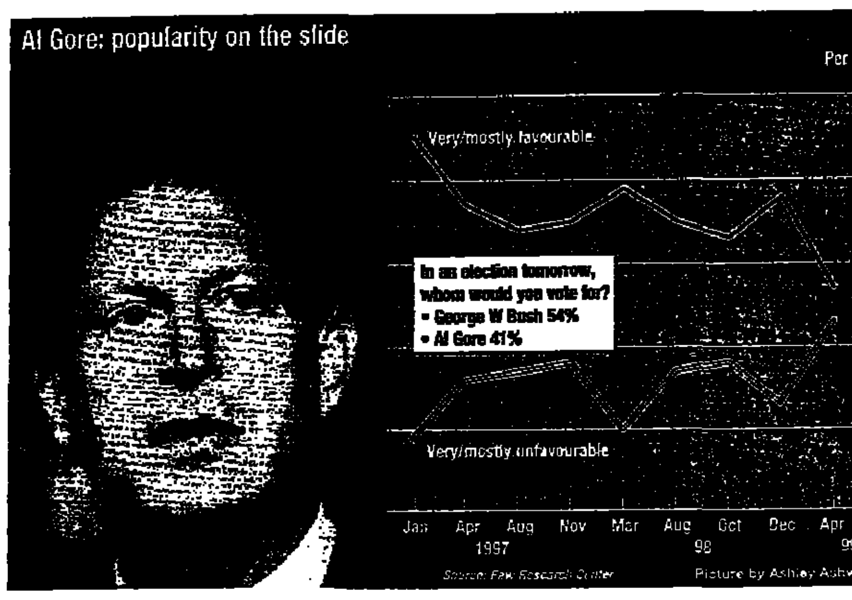
MID-WEST CAMPAIGN VICE-PRESIDENT NO LONGER BASKS IN THE REFLECTED GLORY OF 'LONGEST PEACETIME EXPANSION IN HISTORY'

Gore keen to break up his double act

By Gerard Baker in Washington



Four months ago, on the day President Bill Clinton was impeached by the House of Representatives, Al Gore led a rousing chorus of Democrats as they rallied to their leader's defence.

Mr Clinton, he said, would be remembered as "one of our greatest presidents". The vice-president was proud to have served under him.

The incident seemed a defining moment in Mr Gore's career. The doggedly loyal deputy, who had never flinched from supporting his boss, even in some dicey corners, was there again at the moment of his gravest crisis.

It seemed also to emphasise the unusually effective nature of the two men's relationship – closer to a double act than any administration in US history. And it also underlined what seemed to many to be the unspoken premise of the vice-president's own burgeoning campaign for the top job – that a Gore presidency would, in essence, be a continuation of the Clinton one.

But this week, on a campaign swing through the mid-west, and with his poll numbers sagging, Mr Gore's message looked somewhat different.

As he sympathised with victims of tornado damage in Ohio, chatted informally with senior citizens about healthcare in the Cincinnati suburbs and raised half a million dollars from Democrat luminaries in downtown Chicago, his sharp focus was on a Gore, not a Clinton presidency. Strikingly, in three back-to-back speeches he mentioned Mr Clinton by name only once – and that when he talked of jobs growth under the "Clinton-Gore" administration.

There was no basking in the reflected glory of the "longest peacetime expansion in history". Instead there were many references to the need to address the remaining problems. That is the emerging Gore mantra for the campaign now under way in earnest – producing a "revolution" in public education, improving access to healthcare, and creating a more "livable" environment.

Aides say the shift in emphasis does not represent a deliberate attempt by Mr Gore to distance himself from a dying presidency.

But they acknowledge that Mr Gore needs to strike out firmly now in his own direction. "He wants this campaign to be an affirmative one. There will be unique challenges in the future and he wants to make it clear it will be his administration," says Chris Lehane, Mr Gore's spokesman.

The vice-president's political strategists seem genuinely untroubled in this early phase by Mr Gore's poor poll ratings. They say he faces the problem vice-presidents usually face at this stage – an inability to establish an independent identity. They take comfort, and lessons, from the experience of the last incumbent vice-president to run for the top job.

In 1987-88 George Bush was in a remarkably similar set of circumstances. His poll ratings were poor – they showed Mr Bush losing heavily to Gary Hart, the expected Democrat candidate. Mr Gore now trails George W. Bush, the favoured Republican candidate next year, and son of the former president, by up to 20 percentage points.

Mr Bush was under pressure in the Republican primaries from a senior party figure, Bob Dole. Mr Gore is beginning to feel the heat in the Democratic race from the steadily growing campaign of former senator Bill Bradley.

Mr Bush was derided as a "wimp". Mr Gore is "stiff". Mr Bush was attacked for having no vision. Mr Gore is accused of having no positive message for 2000 and beyond.

Mr Bush went on to win easily in 1988. But only after mounting a belated and blisteringly negative campaign against Michael Dukakis, a less than persuasive Democrat candidate.

The lesson, Mr Gore's advisers argue, is to stake out a positive message – and do it early. But there are pitfalls.

First, Kosovo is not only a potential quagmire for what remains of the Clinton-Gore administration, it also threatens to distract attention from Mr Gore's campaign. In his mid-west swing, Mr Gore was cautious on this tricky issue. He defended the deployment of US forces to the Balkans, but carefully acknowledged that "our choices were complex and difficult".

If Kosovo turns out to be a triumph for the administration, Mr Gore will be quick to claim some of the credit. But if it results in a prolonged and uncertain war, the vice-president has few good options.

The other problem is that, in looking at the success of vice-presidential candidates before George Bush, the prognosis is not good. Mr Bush was in fact the first incumbent number two to win the presidency in more than 150 years. Without weak opposition, he might never have broken the spell.

Report to list lapses at N-weapon labs

The US Energy Department and its contractors showed "a lack of attention" to grave security risks at nuclear weapons laboratories despite nearly two decades of warnings, congressional investigators were set to report yesterday, AP reports from Washington.

"Efforts to address security problems have languished for years without resolution or repercussions to those organisations responsible," the General Accounting Office concluded in testimony prepared for a House of Representatives commerce subcommittee hearing yesterday.

Congress' investigative agency said it had issued 32 reports since 1980 warning of lax security at the labs, and made nearly 50 recommendations that, it said, were mostly neglected.

"Managers and contractors have shown a lack of attention and/or priority to security matters," according to Victor Rezendes, director of the GAO division that studies energy and scientific issues.

The problems at the labs became an issue earlier this year when the Energy Department disclosed it had evidence indicating that China obtained information about the most advanced nuclear warhead in the US arsenal and had used that information to develop its own smaller, more deliverable nuclear weapons.

An employee of the Los Alamos National Laboratory in New Mexico was dismissed, but no charges have been filed.

Mr Rezendes said the most serious problems that were not addressed by the department over the past two decades were:

- Ineffective controls over foreign visitors to the most sensitive Energy Department facilities. Counter-intelligence programmes "received little priority and attention";
- Weaknesses in efforts to control and protect classified and sensitive information. In one instance, a facility could not account for 10,000 classified documents;
- Lack of physical security such as fences, and security personnel who, through the years, have proved unable to demonstrate basic skills such as arresting intruders, shooting accurately or using handcuffs.

Bill Richardson, energy secretary, this week said the department was taking "very aggressive steps" to fix the problems cited by the GAO.

BANKING REGULATION FOREIGNERS WANT MORE OF A CLEAN-UP TO TRIGGER WAVE OF TAKEOVERS

Top Mexican banks may need fresh capital

By Henry Tricks in Mexico City

The Mexican government is planning to tighten regulations in the troubled banking industry in a move that could force owners of the nation's top five banks to raise about $5bn in fresh capital.

That would amount to nearly half of the 115bn pesos ($11.5bn) of capital in the system as of last December. Foreign bankers say it is not enough, however, and they are demanding more of a clean-up to trigger a new wave of mergers.

Eduardo Fernández, head of the National Banking and Securities Commission, said in an interview that the measures would be introduced gradually, and that banks would be encouraged to shore up capital of their own accord.

Next year the government might tighten up the definition of capital, he said, increasingly to limit the amount of subordinated obligations and deferred tax credits that make up about 37.5 per cent of net capital in the system.

The pressures follow blunt messages from several US bankers recently that Mexico's banking system remains undercapitalised, despite a $70bn government bailout after the 1995 financial crisis and the sale of six of 18 banks to foreigners.

Moody's, the US ratings agency, highlighted the lingering weaknesses this week, issuing a report that put Mexican banks last in Latin America in terms of financial strength, lower even than crisis-hit Ecuador.

At a convention in Acapulco this month, John Reed, chairman of Citigroup of the US, said Mexican banks were unattractive to investors as they lacked capital and growth prospects.

"It was only a half-way rescue. It was enough to get banks out of a systemic problem, but it didn't produce banks that were good investments," said another senior US banker.

He expressed concern that the financial flimsiness of some institutions could undermine President Ernesto Zedillo's most important pledge in his last two years in office: to hand over an economy in good shape.

"The banking sector is the Achilles' heel. If I were him, I wouldn't risk leaving it as it is today," he said.

According to bankers and officials, the next wave of capitalisation in the industry could produce a new breed of banker – those Mexican industrialists who refrained from buying overpriced banks during the privatisations which took place in the early 1990s.

They include two of Mexico's richest men – Carlos Slim, the telecommunications magnate who owns Telmex, and Alfonso Romo, whose Savia group includes agro-biotechnology and insurance interests. Alberto Bailleres, of the mining company Industrias Peñoles, is also said to be a potential investor.

But bankers say the Mexican tycoons are not prepared to make acquisitions until there are tougher regulations and more transparency.

Not all Mexican banks believe they need new capital. Banamex, Mexico's largest, is so confident about its strength it has launched its first share buyback, which would reduce 31bn pesos of net capital by 2bn pesos. Banorte is also considered well capitalised.

Jamaica defiant over tax unrest

By Canute James in Kingston

Omar Davies, Jamaica's finance minister, says the government will not withdraw taxes he announced last week which have led to several days of violent protests in Kingston, the capital, and other towns.

The army has been called out to help the police deal with a wave of arson and looting which has accompanied the protests. Two looters have been killed and roads blocked by burning debris and the shells of motor vehicles.

New taxes have been imposed on petroleum products, motor vehicle permits, cigarettes and alcohol to finance the budget presented last week by Mr Davies.

Mr Davies says the projected deficit is J$24.3bn (US$662m), and that the taxes will neither be reduced nor withdrawn as the government has no other means of raising the money.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

½ hour period ending	Provisional Prices for Trading on 21.04.99: Pool purchase price £/MWh	Final Prices for Trading on 20.04.99: Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	11.00	23.55	23.52	0.94
0100	10.70	23.55	23.52	0.94
0130	11.00	23.55	23.52	0.94
0200	11.00	23.55	23.52	0.94
0230	10.70	23.55	23.52	0.94
0300	10.70	23.55	23.52	0.94
0330	10.70	23.55	23.52	0.94
0400	14.00	21.51	21.48	0.94
0430	14.00	9.29	9.29	0.00
0500	14.00	9.29	9.29	0.00
0530	11.00	9.28	9.28	0.00
0600	11.00	9.30	9.30	0.00
0630	14.00	22.84	22.81	0.94
0700	14.01	22.85	22.82	0.94
0730	17.18	22.88	22.82	0.94
0800	20.24	22.88	22.85	0.94
0830	23.37	41.29	41.28	0.94
0900	23.93	41.39	41.42	0.94
0930	23.87	41.45	41.50	0.94
1000	24.24	41.47	41.53	0.94
1030	24.35	27.40	27.45	0.94
1100	24.28	27.41	27.46	0.94
1130	24.39	27.46	27.53	0.94
1200	24.75	27.51	27.59	0.94
1230	24.63	36.97	37.04	0.94
1300	26.82	36.89	36.94	0.94
1330	26.07	25.57	25.58	0.94
1400	23.36	23.86	23.86	0.94
1430	23.16	23.86	23.86	0.94
1500	22.99	23.86	23.86	0.94
1530	22.63	23.87	23.88	0.94
1600	20.51	23.97	24.02	0.94
1630	21.46	26.03	26.17	0.94
1700	24.68	32.21	32.47	0.94
1730	24.17	32.32	32.61	0.94
1800	22.96	31.87	32.26	0.94
1830	18.87	41.99	43.19	0.94
1900	10.74	84.24	85.72	0.94
1930	10.70	84.15	85.56	0.94
2000	10.69	81.71	82.36	0.94
2030	15.89	39.27	39.45	0.94
2100	16.93	24.58	24.60	0.94
2130	15.90	19.53	19.51	0.94
2200	15.62	19.50	19.47	0.94
2230	17.00	22.84	22.81	0.94
2300	17.00	22.84	22.81	0.94
2330	14.00	22.84	22.81	0.94
2400	14.00	9.31	9.31	0.00

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.88/MWh becomes 1.888p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. [illegible]

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COMPAQ

To our valued customers, shareholders and partners:

Compaq became a leader through intense dedication to anticipating and exceeding the needs of its market. We are committed to re-energizing that dedication and wanted to share with you this message to all Compaq employees.

April 18, 1999

To the people of Compaq

Today, we announced that Compaq's Board of Directors formed an Office of the Chief Executive to guide the company until we complete the selection of a new CEO to replace Eckhard Pfeiffer, who resigned from the company. Fellow Directors Frank Doyle, Ted Enloe and I will constitute the newly formed Office of the Chief Executive. As acting CEO, I, along with Frank and Ted, will be deeply involved in the daily direction and operations of the company from the Houston headquarters.

Eckhard oversaw a period of stunning growth in Compaq's history. All of us who benefited from that growth owe him a debt of gratitude.

Our market strength and the fundamental correctness of Compaq's strategic direction are as clear to me today as at any time in our great history. However, we also face some challenging times, and have reached the stage where a change is appropriate for the company. All three of us will dedicate ourselves to helping Compaq realize its potential, transforming the industry once again.

We plan to accelerate the pace of the entire company. As a company engaged in transforming its industry for the Internet era, we must have the organizational ability to operate at Internet speed. We're going to increase efficiency at Compaq, delivering quick responses to business demands, promptly meeting the needs of every customer and keeping us well ahead of the market at all times. We must remain intimately connected to our markets and customers.

You are the best team anywhere in the industry. We are a world leader in personal computing, enterprise computing and Internet applications. I know that working together we will be able to make the right changes that will reinforce our industry leadership. We are determined to work with you to prove to every customer that this is the best company to serve their information technology needs. We will also confirm to our investors that Compaq remains a core holding in any portfolio.

The Board is working to select a new CEO. We have instructed our search firms to select a leader for a company on the frontier of change...a leader capable of managing at Internet speed, with the pace of change continuously accelerating.

I sincerely appreciate your tremendous efforts and dedication to Compaq. Together we can re-energize the company to seize every opportunity the future has to offer.

Regards,

Ben Rosen

Ben Rosen
Chairman & CEO

THE POUND REPORT SAYS DEFICIT COULD BALLOON AS TOP ECONOMIST URGES SINGLE CURRENCY MEMBERSHIP 'DESPITE DEFICIENCIES'

IMF warning on strength of sterling

By Robert Chote, Richard Adams and Alan Beattie

The International Monetary Fund yesterday warned that the "dramatic" strength of sterling could lead to a ballooning current account deficit for the UK.

The prediction came in the latest edition of the IMF's *World Economic Outlook*, published yesterday, which forecast a deterioration in the UK's external position, made worse by the prolonged rise in sterling.

The IMF forecast revises down its view of UK economic growth this year, from 0.9 per cent to 0.7 per cent, and expects further interest rate cuts by the Bank of England, the UK central bank.

The IMF said the dramatic appreciation in sterling over the past three years could on its own add more than £25bn ($40bn) to the UK's annual deficit.

The report came the same day as a member of the Bank of England's monetary policy committee, which sets interest rates, called for sterling to join the European single currency despite the "flaws and deficiencies" in the way the European Central Bank was run.

Willem Buiter, an academic economist who sits as an independent member of the committee, criticised the ECB's failure to hold itself accountable by publishing the minutes and voting records of its ruling council.

"If this is not remedied, the quality of policymaking will be affected," Mr Buiter said. "This could threaten the entire survival of monetary union."

The ECB's lack of transparency could lead to the central bank losing political support if it is forced to make unpopular decisions over monetary policy.

Mr Buiter said if necessary the UK could act as a "one-man transparency squad", publicising the ECB's monetary decision-making process, if sterling was a member.

"There is no statutory basis to the secrecy," Mr Buiter said. "If any council member can write down 17 names, they can reveal the vote."

In a paper entitled Alice in Euroland, Prof Buiter called for the size of the central bank's council to be reduced and for the ECB to be made explicitly responsible for financial stability within the euro-zone.

Analysts said Mr Buiter and Bank colleagues were unlikely to be concerned by figures showing inflation rising above the government's target. City economists said the 0.3 percentage point rise in underlying inflation to 2.7 per cent was a result of excise duty increases on motor fuel and tobacco in the national Budget.

See Editorial Comment

IT sector seeks an image upgrade to compete globally

Computer workers are no longer automatically seen as oddball science fiction fans, but there is still a way to go. **Sathnam Sanghera** reports

Adam Twiss (left) and Damian Reeves, who are in talks with US venture capitalists that could value their company at $48m Ashley Ahwood

In the US, you are not a "serious contender" unless you are employing thousands, says Adam Twiss, half the brains behind Zeus, an internet software company started when he was a student at Cambridge University. "We are just eight people with big ideas."

Mr Twiss and Damian Reeves started Zeus four years ago. They are now in talks with US venture capitalists on the sale of a stake that will value the company at about £30m ($48m).

Zeus, which produces programs enabling companies to run web sites, could have a market capitalisation of around £200m by 2001 if its current growth rate continues. This will make its founders two of the richest young people in the country.

But Zeus is tiny when compared to Yahoo!, the US internet service provider started by two Phd students. It is now worth around £25bn.

There is a big cultural and economic gap between the US and the UK when it comes to IT, says Mr Twiss, 23. "The level of computer literacy is a lot higher in the US, and in terms of the number of companies that universities have set up we lag behind our American counterparts."

He adds that the UK industry must think of more creative solutions and offer graduates bigger financial incentives before it can compete globally. "Microsoft has millionaires working for it," he notes.

Attracting graduates is difficult.

Commonly mocked as "nerds" or "geeks", IT workers have always had an image problem. But this perception is changing.

Computer science is the second most popular UK university degree subject. Applications increased this year by 21 per cent, and the number of people working in IT has increased by 10 per cent in each of the last two years. About 800,000 work in the sector.

The increasing popularity of IT is clearly apparent in Cambridge, where Microsoft has based its $20m European research centre in collaboration with the university. An elite of high-salaried graduates and super-rich entrepreneurs is emerging from what has become known as "silicon fen" – after the surrounding low-lying countryside, known as the fenlands.

Mr Twiss recognises that the image of Britain's IT sector is changing. "The internet is helping to popularise IT and will remove the "anorak factor" from computers," he says. "It will eventually mean that technology will become cool."

Andrew McNeil, a computer science Phd student at Trinity College agrees. "The biggest problem is that computers are perceived as being impersonal and IT workers are seen as 'geeky', single men who like science fiction. But this stereotype will change as computers become more popular," he adds.

But the image will need to improve exponentially before the UK solves its massive IT skills shortage. Professor Kit Grindley, of the London School of Economics, has described the shortfall as "a national emergency" and recent research by the LSE and Computing newspaper said 85 per cent of IT managers expect demands for IT skills to rise, regardless of any fluctuation in the economy.

"There has always been a skills shortage in the IT industry and there will always be. Trends show that this is the nature and pace of the industry," says Prof Grindley.

A big factor is the poor representation of women. They make up around 25 per cent of the sector's workforce, down from 29 per cent in 1994. Professor Robin Milner, head of Cambridge University's computer laboratory, believes the problem is "probably a genetic thing that gets enhanced by peer group behaviour. Males seem to be naturally orientated towards things that buzz and click".

David Ainscough, an IT careers adviser at the university, sees another challenge for the future as persuading people with non-IT education backgrounds to opt for IT careers.

"There is a great pressure to go into management consultancy or investment banking," he says. "The industry tends to have a communication problem. In their literature and presentations, IT employers can very quickly fall into technical jargon which is off-putting for some students."

Blair to back trade union modernisation

By Robert Taylor, Employment Editor

Tony Blair, the prime minister, will acknowledge that trade unions have shed their image of being strike-prone and obstructive to change.

His endorsement of "new unionism" will come at a Trades Union Congress conference next month on workplace partnerships between companies and unions.

Mr Blair writes in the introduction to a TUC report to be presented to the conference: "This important new initiative exemplifies the willingness of modern trade unions to seek common ground with employers, to co-operate to solve shared problems and to improve the lives of people at work."

Mr Blair has not gone out of his way to say anything enthusiastic about trade unions since coming to office two years ago. At a 1996 conference he even appeared to cast doubt on their willingness to change their old attitudes. But his support for the TUC's workplace partnership suggests Mr Blair accepts unions have a positive part to play in workplace modernisation.

The TUC's partnership initiative has also won enthusiastic backing from many big employers. Peter Sutherland, co-chairman of BP Amoco; Sir Peter Bonfield, British Telecommunications chief executive; Sir Peter Middleton, Barclays chairman; Sir Ronald Hampel, ICI chairman; Ian Robinson, Scottish-Power chief executive; and Derek Green, United Utilities chief executive, have endorsed the scheme. Adair Turner, director-general of the Confederation of British Industry, the employers' lobby, has agreed to address the partnership conference.

In its report the TUC highlights a number of case studies of successful company-union partnerships. These include Tesco, the retail chain; British Gas Trading; National Power; Unisys, the information technology services company; United Distillers; Legal and General and Alstom Gas Turbines.

John Monks, TUC general secretary, said the trade union commitment to partnership with companies reflects "a significant policy shift" that has taken place since Labour's election victory. He writes of "a balance between fairness and flexibility".

NEWS DIGEST

SCOTLAND

Kvaerner to meet Swan Hunter over shipyard sale

Swan Hunter, the Dutch-owned shipyard in north-east England, said yesterday it was working on a scheme to buy the Govan yard in Scotland, put up for sale last week by Kvaerner. It expects to meet the Anglo-Norwegian company in the next two days. Norman Bushell, Swan Hunter's commercial director, said its plan was to buy Kvaerner Govan, in the city of Glasgow, as part of a consortium of three Dutch and two British companies, which he did not identify. It would use Govan to build ships and "surround it with other activities that complement our operation" in the north-east. Jaap Kroese, the Netherlands businessman who bought Swan Hunter in 1995, and other Swan Hunter executives last week met the taskforce set up by the UK government to try to find a buyer for both Kvaerner Govan and the Kvaerner Energy engineering plant. He would not say how many of the 1,200 jobs at Govan were likely to be saved. Swan Hunter has qualified as a potential bidder for Ministry of Defence contracts for two new landing ships.

The taskforce has met executives of British Aerospace, which is in the process of buying the shipbuilding interests of GEC. But BAe is not thought to be interested in buying Govan. **James Buxton, Edinburgh**

MODIFIED FOODS

Science chief urges caution

Sir Robert May, the UK chief scientific adviser, yesterday warned MPs that the development of genetically modified agriculture should not be left to commercial interests alone. "I do not believe that what is good for Monsanto is good for the world," he said in evidence to the environmental audit committee. GM crops potentially offer environmental benefits and increased crop yields. But harnessing the technology for the benefit of the environment or developing countries would not always offer immediate commercial returns, he said. It was crucial for the UK to remain a leading player if it was to influence the international development of GM technology. Sir Robert was also confident about the UK regulatory process. "I don't worry about our regulatory regime, which is as good as any I know," he said. He added that the industry was as concerned as the government about safety. "Their economic interest is most surely not to violate safety concerns," he said. **Vanessa Houlder, London**

BBC

US venture exceeds targets

BBC America, launched a year ago as part of the BBC's $565m joint venture with Discovery Communications, the US cable television company, has exceeded targets and is now available to 9m US homes, it was announced yesterday. The BBC said its US channel, which shows BBC entertainment and drama, was received by 4m more US homes than expected. The BBC also estimated that it and its US partner had spent $58m – 10 to 15 per cent more than planned – on joint programming. Discovery invested $100m in BBC America and $195m in other joint venture channels around the world. John Hendricks – founder, chairman and chief executive officer of Discovery – warned that television companies must "think globally" but "act locally". He said TV programming "has to represent the interests" of particular markets as opposed to the "global cultural impact" of Hollywood.

Discovery and the BBC said their joint venture channels were now distributed to 74.4m homes around the world. The BBC has benefited from the venture by gaining more revenue from the broader distribution of programmes around the world, as well as cash from advertising on the new channels. **Cathy Newman, London**

CONSERVATIVE PARTY

Limits placed on free market

William Hague, leader of the opposition Conservative party, last night fleshed out his concept of "caring Conservatism" and made clear that he had ditched the idea that the state health service and education system should be reconstructed according to free market principles. Mr Hague also committed the party to leading the disparate groups opposed to sterling's membership of the European single currency.

Mr Hague was speaking at a dinner marking the 20th anniversary of Baroness Thatcher's 1979 national election victory, which marked the dawn of a decade of sweeping market liberalisation. "It is a great mistake to think that all Conservatives have to offer is solutions based on free markets," Mr Hague said. Instead the party should champion "a real transfer of power away from [government departments in] Whitehall to schools and hospitals, patients and parents". **Robert Peston, London**

ART AUCTION

School sells Gainsborough

One of Gainsborough's most important portraits, of the Byam family, is to be auctioned at Christie's in London on June 10. It could sell for £5m ($8m), easily a record for a work by the 18th century British artist. The painting is being sold by Marlborough College, a top private school, which received it as a gift in 1955 from a descendant of the Byam family who lived in the town, in south-west England. The cost of insuring, securing and maintaining the painting is high and the school is to use the money from the sale to build an arts performance centre and swimming pool. Marlborough was keen that the painting should be acquired by a public collection in the UK. Some galleries expressed an interest but the price was too high. **Antony Thorncroft, London**

TOURISM THE UK's BEST-KNOWN ENTREPRENEUR PLANS TO OFFER FLIGHTS TO SPACE

Virgin territory beckons Branson

Richard Branson, head of Virgin group, is boldly going where no UK entrepreneur has gone before, Robert Peston writes. The nation's best-known businessman is planning to offer flights to outer space and has registered Virgin Galactic Airways as a company.

Virgin has established a three-strong team to develop the space tourism business. The ambition is to offer flights, costing $50,000, from 2007.

"Five years ago it would have been unthinkable to seriously discuss the subject of space tourism," Mr Branson said. "But now it is very hard to find anyone in the aviation community who still refuses to take it seriously."

His vision is to offer a week's holiday for the well-heeled to live out their adolescent fantasies. In a fusion of the *Right Stuff* and *Star Trek*, vacationers would travel to a desert area where they would spend a week learning to use a space suit and coping with weightlessness.

They would then enjoy a two-hour space flight, during which they would "go into the darkness of space", see the earth's curvature and float around the cabin.

Market research indicates there are 200,000 people willing to pay up to $100,000 to experience space flight, according to Will Whitehorn, Virgin's director of communications. Most *wannabe* Captain Kirks were in the US and Japan. "The Japanese seem particularly keen," he added.

Mr Whitehorn is part of the extra-terrestrial service development team, together with Peter Evans, operations director of Virgin Atlantic, and Roy Gardener, the airline's engineering chief executive.

They are travelling around North America looking at private schemes developing a reusable rocket. "There are about a dozen projects we have looked at," said Mr Whitehorn. "Within two years there will be a credible reusable project under way", he said.

He is particularly interested in the Rotary Rocket Company, which has invested $30m in the Roton space shuttle, a revolutionary space vehicle powered by propellers. Mr Whitehorn is visiting it in California next month. Virgin aims to invest in one of these projects or strike a deal with one to market the tourism potential.

The primary aim of most of these projects is to come up with a cut-price vehicle for launching satellites.

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FINANCIAL TIMES SURVEY

THE QUEEN'S AWARDS

WEDNESDAY APRIL 21 1999

Competition in for a shake-up

The service sector is likely to be targeted as a new source of entries in a review of the scheme now taking place, says **Kevin Brown**

If the Queen's Awards was a company, it would be ripe for a hostile predator. After 33 years, the scheme is clearly in need of a dramatic shake-up. Fortunately, that is precisely what it is about to get.

There were just 765 applications for awards this year, down more than a third on last year, and nearly 1,000 below the level two years ago. Only 101 were successful, down nearly a quarter on 1998 and 42 per cent from the 1990 record of 175.

While the wide of range winners, and the high quality and innovative nature of their products, demonstrates the continuing strength of UK exports, the level of applications was at an all-time low and the number of awards is the lowest since 1975. That is not all. The number of small companies applying is rising, and the number of big ones falling.

No-one really knows why this is happening, but the results are clear: 70 per cent of awards have gone to companies with fewer than 200 employees, and Britain's biggest big companies are noticeable mainly by their absence.

British Aerospace's Airbus operations are there, along with several subsidiaries of companies, such as Zeneca Agrochemicals, Glaxo Research and Development, Alstom Energy, and Pilkington Micronics. But there are no car companies this year, and few household names with the possible exception of the Financial Times, which wins an award for export achievement on the back of rising overseas sales.

Within the overall figures, is another discouraging development. Although the biggest decline is in applications for the export award, down from 1,300 two years ago to 520, interest in the technology and environmental awards is also falling.

Queen's Awards 1966-99

Year	Applicants	Awards	Success (%)
1966	1,008	115	11.4
1967	1,621	85	5.2
1968	1,200	85	7.0
1969	1,115	98	8.8
1970	1,374	104	7.5
1971	1,450	110	7.5
1972	1,147	90	7.8
1973	1,019	83	8.1
1974	898	78	8.6
1975	1,332	95	7.1
1976	1,721	115	6.6
1977	1,809	125	6.9
1978	1,860	124	6.6
1979	1,640	121	7.3
1980	1,172	104	8.8
1981	1,222	109	8.9
1982	1,079	110	10.1
1983	985	110	11.1
1984	962	111	11.5
1985	1,095	119	10.8
1986	1,281	141	11.0
1987	1,071	154	14.3
1988	985	145	14.7
1989	1,087	156	14.3
1990	1,355	175	12.9
1991	1,142	158	13.8
1992	1,585	165	10.5
1993	1,822	155	8.5
1994	1,882	185	9.8
1995	1,705	163	9.5
1996	1,561	129	8.2
1997	1,724	134	7.7
1998	1,214	133	10.9
1999	765	101	13.2

Source: The Queen's Awards Office; FT

Only 163 companies applied for the technology award, compared with 386 nine years ago. And the environmental award, introduced in 1993 to rekindle interest in the scheme, attracted only 82 applications, compared with 240 in its first year.

The number of awards in the two sections has collapsed, too, suggesting that quality remains a problem. Only 14 companies get the technology award this year, compared with 49 in 1990. Five win the environmental award, up one on last year, but down from 12 in 1993.

It is not clear why so many companies have lost interest in the scheme. Some mentioned the high level of sterling in their applications, others referred to difficulties in overseas markets.

To win the export award, companies must demonstrate a "substantial and sustained increase in export earnings over three consecutive 12-month periods."

Officials insist that the quality of applications remains high. But it is clearly getting easier to win what was once Britain's most prestigious award to industry.

Companies applying this year had a 13.2 per cent chance of success, double the prospects of applicants in 1978, the peak year for applications, when 1,860 companies sought the award and only 124 received it.

The success rate this year was higher than at any time since 1991, and well above the average level for the first two decades of the award.

Against this background, it would be hard to argue that the awards system is not in crisis. The numbers illustrate why Tony Blair, the prime minister, decided in December that a thoroughgoing review was essential. Consultation on the review, the first for 24 years, closed this month. The inquiry committee, chaired by the Prince of Wales, is expected to report in time for fundamental changes in the scheme next year.

Officials say it is too early to speculate on the committee's recommendations, but it is known to be considering broadening the awards, changing the name – only the royal reference is sacrosanct – and raising the consumer profile.

The export award is likely to be changed to attract more applications from services companies in sectors such as tourism and banking, perhaps by relaxing rules on qualifying exports.

Another idea is a higher profile awards ceremony instead of the existing presentation by county lords lieutenant. The committee is also considering retaining an export award for smaller businesses along largely unchanged lines, while introducing an award based on global market share for larger businesses.

There will be changes to the technology and environmental awards, too. Both are likely to be broadened to include, for example, process innovation and environmental management alongside new products. The applications process is also being reviewed to see if it can be simplified.

It is not all gloom and doom. The awards for technological achievement suggest that Britain remains capable of outstanding innovation – one of the key objectives of the trade and industry department's competitiveness White Paper, published last year.

Notable award winners include Brunton's Propellers, of Clacton-on-Sea, for the development of an automatic variable pitch marine propeller which alters its settings to suit the operating conditions of the vessel on which it is mounted.

The Technology Partnership, of Royston, Hertfordshire, gets the award for its development of a system that can detect dangerous bacteria such as e-coli and cryptosporidium in minutes rather than the days required by testing equipment currently available.

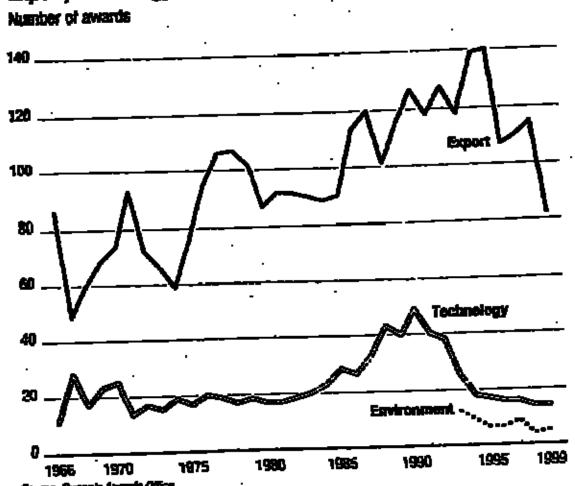
Digital Engineering, a Belfast manufacturer of ancillary telecoms equipment, is one of only two companies to win awards in the technology and export categories. The other is Snell & Wilcox, of Petersfield, Hampshire, which makes broadcasting and telecom equipment.

There is a range of winners from around the UK, including 12 from Scotland, four from Northern Ireland and four from Wales. In England, there is a notable concentration of awards in the three southern counties of Hampshire, Dorset and Wiltshire, which clock up 12 between them.

At the present rate of decline, however, applications for the awards would have virtually disappeared not far into the millennium – hardly the message Mr Blair's government wants to send to the world.

Export, technology and environment awards

Number of awards



Source: Queen's Awards Office

THE QUEEN'S AWARDS FOR EXPORT ACHIEVEMENT



Left to right: Nick Brown, managing director of Nikwax, demonstrates waterproofing on a sleeping bag; Pritchitt Foods' Icecream; and AcceSS7 system hardware from Hewlett-Packard's telecoms division in Scotland

Name	Location	Goods and services exported
Aggreko UK – Manufacturing	Dumbarton, West Dunbartonshire, Scotland	Generators and oil free air compressors
Akos Healthcare Group	St Albans, Hertfordshire	International healthcare consultancy and contract services
Allen & Overy	London EC4	Legal services
Beardow & Adams (Adhesives)	Milton Keynes	Hot melt adhesives
Belleek Pottery	Belleek, County Fermanagh, Northern Ireland	Parian china giftware
British Aerospace Airbus	Filton, Bristol	Airbus airliner wing design and manufacture
BUPA International	Brighton, Brighton & Hove	Private medical insurance
CRP Print & Packaging	Corby, Northamptonshire	Flexographic printing of packaging items
Cambrian Consultants	Usk, Monmouthshire, Wales	Geoscience, engineering, training and software expertise to the oil and gas industry
Cambridge Pharma Consultancy	Cambridge, Cambridgeshire	International management consultancy to the pharmaceutical industry
Caterpillar (U.K.) (Telehandler Division)	Desford, Leicestershire	Telehandlers
H Charlesworth & Co t/a The Charlesworth Group	Huddersfield, Kirklees	Typesetting and printing of scientific journals
Colortrac	Huntingdon, Cambridgeshire	Large format digital colour scanners
Compugraphics International	Glenrothes, Fife, Scotland	Photomasks for the semiconductor industry
Corney & Barrow (Broker Services)	London ECI	Fine and rare wines
Crambeth Allen Publishing	Craven Arms, Shropshire	Technical periodicals
Crystalox	Wantage, Oxfordshire	Crystal growth equipment
Data Connection	Enfield, Greater London	Communications and networking software products and software engineering services
Digital Engineering	Mallusk, Belfast, Northern Ireland	Apparatus for developing and testing of telecommunications equipment
Dorset Cereals	Dorchester, Dorset	Breakfast cereals
Druck	Groby, Leicestershire	Electronic pressure measurement devices, pressure calibrators and aircraft ground support equipment
Durham Associates Group	Castle Eden, County Durham	Training in business administration
Dytech Corporation	Sheffield	Catalysts and ceramic materials
Edinburgh Business School	Edinburgh, Scotland	MBA distance learning courses
Element Communications	Shaftesbury, Dorset	Sale of books and intellectual rights
Elmar Services	Aberdeen, Scotland	Design, manufacture and rental of oilfield equipment
Equisys	London SEI	Zetafax corporate fax software
EuroFinance Conferences	London EC3	Conference, exhibition and training course organisers in international cash and treasury management
Euromoney Publications	London EC4	Financial publishers and conference organisers
Evans & Sutherland Computer	Horsham, West Sussex	Visual flight simulators
Financial Times	London SEI	Newspaper publishing and advertising
Fine Fragrances & Cosmetics	Hampton, Richmond-upon-Thames, Greater London	Toiletries and cosmetics
GAC (UK)	Cwmbran, Torfaen, Wales	Aerosols for parties, celebrations and decoration
GE Aircraft Engine Services	London W6	Repair and overhaul of aircraft engines
GEW (EC)	Redhill, Surrey	Ultra-violet curing equipment for printing machines
Getty Connections	Carrickfergus, Northern Ireland	Cable assemblies and general equipment wire
Glenmorangie	Broxburn, West Lothian, Scotland	Malt and blended Scotch whisky
Guralp Systems	Aldermaston, West Berkshire	Seismometers
H.D.A. Forgings	Redditch, Worcestershire	Specialist forgings
Heatric, a division of Meggitt (UK)	Poole	Highly compact printed circuit heat exchangers (PCHEs)
Hill Price Davison	London SW15	Computer software and services

Name	Location	Goods and services exported
Holton Machinery	Bournemouth	Holton Conform continuous rotary extrusion machines
John Horsfall & Sons (Greetland)	Halifax, Calderdale	Airline blankets
Huthwaite International	Rotherham	Sales and management training consultancy
Hydrovision	Dyce, Aberdeen, Scotland	Underwater remotely operated vehicles
IAI International	London EC4	Investment management
Ilmor Engineering	Brixworth, Northamptonshire	CART and Formula One Mercedes-Benz racing engines
Innovative Technology	Oldham	Banknote validation equipment
Innovative Tooling Solutions, a division of Forth Tool and Valve	Glenrothes, Fife, Scotland	Specialised machine tooling for controlled boring operations
London City Airport	London E16	Airport services
Lowe Refrigeration Company	Carryduff, Castlereagh, Northern Ireland	Rental and sale of refrigerated display and storage equipment
M4 Data	Wells, Somerset	Data storage devices
The Macallan Distillers	Craigellachie, Moray, Scotland	Highland malt Scotch whisky
MacDuff Shellfish (Scotland)	MacDuff, Aberdeenshire, Scotland	Fresh and frozen shellfish
McCormick Europe, Condiment Division	Paisley, Renfrewshire, Scotland	Condiments and seasonings
Motorola GSM Systems Division	Swindon	Cellular radio telephone equipment
Owen Mumford Medical Division	Woodstock, Oxfordshire	Sterile medical disposables for capillary blood sampling and delivery systems for self-administration of injectable pharmaceuticals
Nikwax	Wadhurst, East Sussex	Waterproofing preparations for footwear, clothing, outdoor and equestrian equipment
Norton Rose	London EC3	Legal services
Partridge Films, a division of HTV	Bristol	Natural history films
Penny & Giles Drives Technology	Christchurch, Dorset	Electronic motor controllers for invalid wheelchairs and electric scooters
Pilkington Micronics	Deeside, Flintshire, Wales	Processed glass for data storage and display
Powder Systems	Liverpool	Pharmaceutical processing equipment, high containment and product protection systems for pharmaceuticals
L.E.Pritchitt & Co. t/a Pritchitt Foods	Bromley, Greater London	Dairy and dairy alternative products
Rig Design Services	London WI	Engineering and design services
Scherer DDS, Zydis Division	Swindon	Fast-dispersing tablets for prescription pharmaceuticals
SciMAT	Swindon	Battery separator components and filtration products
Sea Air & Land Forwarding	London NW10	General merchanting and freight forwarding
Snell & Wilcox	Petersfield, Hampshire	Equipment for broadcast television studios, multimedia and telecommunications
Software 2000	Sandford-on-Thames, Oxfordshire	Computer software
Sonardyne International	Yateley, Hampshire	Underwater acoustic navigation positioning and telemetry equipment
Specialist Refractory Services	Riddings, Derbyshire	Refractory mould materials
Stannah Stairlifts	Andover, Hampshire	Electrically powered stairlifts
Charles F. Stead & Co	Leeds	High-quality suede leather for the shoe trade
Svitzer	Great Yarmouth, Norfolk	Seabed and sub-seabed surveys for the oil and gas and communications industries
Technical Absorbents	Grimsby, North East Lincolnshire	Man-made superabsorbent fibre
Thermatool Europe	Basingstoke, Hampshire	High frequency welding and annealing equipment and high-speed shears
Trans Euro	London NW10	Global move management, worldwide corporate relocation services, fire-safe secure storage and freight forwarding
UK Project Support	Norwich, Norfolk	Specialist technical contract personnel
University of Manchester Institute of Science and Technology (UMIST)	Manchester	Research, teaching and technology transfer
Walkers Shortbread	Aberlour-on-Spey, Moray, Scotland	Shortbread
Woods Air Movement	Colchester, Essex	Mechanical ventilation equipment

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Japanese schoolchildren during an earthquake drill: Güralp Systems' equipment helps detect and monitor earth tremors AP

PROFILE
CANSUM GURALP

Making waves

Sales of the company's earthquake monitoring equipment are going from strength to strength

Cansum Güralp, whose company has won a Queen's Award for export, knows all about making waves. He makes advanced seismic detectors for monitoring earthquakes under the sea and on land.

Güralp Systems is a natural candidate for an export award: the UK accounts for less than 1 per cent of sales. More than 40 countries use Güralp's sensors but the largest markets are the US, with 44 per cent of sales, Japan with 20 per cent, Europe with 16 per cent and South America with 5 per cent.

The company was founded in 1985 in Mr Güralp's bedroom in Swallowfield, near Reading. It eventually graduated to his garage and then to its current premises in Aldermaston, where it has spread out into three units.

Mr Güralp, managing director, says: "I saw people needed high quality information to understand the inside of the earth. Historically, all seismologists made their own instruments."

He moved to the UK from Ankara, Turkey, in 1970. He studied at Reading University and earned his doctorate in the cybernetics department there.

Funding for the company was provided from his father. Mr Güralp believes the fact that it was privately financed meant it was not at the mercy of institutions or government agencies and was allowed the freedom to develop in the formative stages when it can take time for a young company's true aims to be established. The company did not show a profit for about the first five years, Mr Güralp says.

In the past three years Güralp Systems' sales have almost doubled to £2.06m and the number of people it employs has risen from 12 to 31.

All research is still funded internally. "We make the instruments we think the seismologists need and we hit the boundaries that we think not everyone will be able to achieve." In such a specialised market, Mr Güralp believes his only real competitors are a company in the US and one in Switzerland.

The company has equipped the US National Seismometer Network and the Canadian Seismometer Network, thus covering the whole of North America. It has achieved similar success in Japan. It also makes ocean-bottom seismometers to detect distant quakes in the seabed to monitor for tidal waves.

Most of the company's sales are to universities and government institutions but, in a project with Princeton University, the company designed an instrument for use in US high schools as a teaching aid which can be hooked up to a personal computer.

The company also designs and makes instruments that go into boreholes where they are closer to the action. It is working on a scheme in Japan called the Japan Trench Project where an instrument will be placed down a borehole 1km below the ocean floor.

The project is funded by Tokyo University. The borehole is expected to be drilled towards the end of the year.

In a contract with the University of California and Los Angeles, Güralp Systems is now bringing its 14 years of terrestrial experience to bear on designing a prototype seismometer for use on Mars.

Its sensitive components need to be designed to withstand the launch and a hard landing but Mr Güralp hopes to be able to deliver it for preliminary testing in July.

He says the company is currently researching into an "ultimate instrument" which will be a completely digital, broadband seismometer. "It will cut costs for seismologists, will be easier to install and will provide more information and make research in seismology more easy," Mr Güralp says.

He believes the market is growing. The increasing interest in environmental monitoring means new schemes to provide better understanding of site conditions and the environmental effects of industrial activity, such as mining and major civil engineering, could provide new niches for Güralp to exploit.

One such emerging niche is monitoring underground nuclear explosions: Güralp already provides equipment to the Comprehensive Test Ban Treaty Organisation in Vienna.

Charles Pretzlik

OFFSHORE EQUIPMENT by Thorold Barker

Sales success runs deep

The oil and gas industry has provided fertile ground for suppliers from the UK

Repairing pipelines a kilometre under the sea is beyond the scope of any diver, but an everyday task for the underwater vehicles manufactured by Aberdeen-based Hydrovision.

Like most of the seven other export achievement winners from the oil and gas industry this year, it has used experience from the North Sea to expand into growing off-shore areas such as South America and West Africa. Its largest customer is now in Brazil.

David McKay, commercial manager, says: "In Norway you cannot dive below 180m, unless you can prove there is no other way of doing a job. But a pipeline has to stay on the seabed for many years. It's not a temporary solution."

The result is the Diablo remotely operated vehicle. The size of a Land Rover, it can dive to 3,000m and carry out intricate tasks from friction welding to closing valves – under the control of a surface operator.

"It's like an underwater helicopter, it can move in any direction at any angle," says Mr McKay.

Hydrovision was formed through a 1990 management buy-out from Pressure Products, led by Chris Tarmey, managing director. The deal gave the company the rights to the small Hyball underwater vehicle and it has since developed the larger Sea Demon and Diablo models.

Exports have grown by 4½ times since 1995, and accounted for half of last year's £10m turnover, from the sale of about 20 vehicles.

Underwater expertise was also behind awards for Sonardyne International and Svitzer. Sonardyne has sold its seismic streamer positioning equipment – which won a Queen's Award for technological achievement in 1994 – into global markets including China, Japan and West Africa, to help win its first export award.

The system uses acoustics to pinpoint the position of seismic sensors – used to look for oil – as they are dragged on streamers up to 8km behind ships.

Heatric, which makes heat exchangers for use in gas production, has won its second award for export

Sonardyne was set up in a Hampshire garage in 1971. It now employs 149 and has offices in the UK, US, Singapore and Brazil. It also employs its acoustic technology to position floating oil rigs – used when the water is too deep for fixed platforms – which have to be directly above the well at all times.

Ian Polley, managing director, says much of the recent growth – exports have doubled to £9m since 1995 – has come from oil companies moving aggressively into new deep water areas such as Brazil and West Africa.

Acoustics were also behind Svitzer's second export award in a row. It uses the technology to map the seabed to avoid underwater hazards for oil pipelines and drilling platforms.

Christopher Hill, special projects manager, says the company – which was set up in 1987 – worked exclusively in the North Sea for the first five years, but has now had work in area as diverse as West Africa, India and the Falkland Islands. "We are taking the expertise we developed in the North Sea and are now exporting it."

He says the low oil price began to hit orders in the autumn, but the group has begun to diversify and is currently mapping the route for a transatlantic telephone cable.

UK Project Support, a first-time winner, describes itself as a "very specialist version of Manpower [the recruitment agency]" providing operators for remotely operated vehicles, such as Hydrovision's Diablo.

Christopher Kemp, managing director, started the business as a one-man contractor in 1985, and now has eight office-based employees and up to 60 contractors working offshore around the world at any one time.

Another international provider of oil services expertise is Cambrian Consultants, whose employees specialise in evaluating geological data from oil wells in 25 different countries. The Monmouthshire-based group moved outside the "mature" North Sea in 1993. Exports now represent nearly 60 per cent of its annual £6m turnover.

In 1975, London-based Rig Design Services started designing drilling systems for fixed North Sea platforms. But in the last five years it has established itself as a leading designer of deep-water drillships. Exports, which accounted for about 15 per cent of business in 1994, are now more than 90 per cent of the group's £12m of sales to customers such as Samsung and Daewoo who build the ships.

Elmar Services – another first time winner from Aberdeen – has differentiated its oil field equipment by custom designing it for particular regions, including special cold climate materials in products destined for Siberia.

Heatric, a division of Meggitt, wins its second award for export. The company, which makes heat exchangers for use in offshore and onshore gas production, has markets which include Norway, Africa, the Middle East, Australasia and the Far East.

Wing panel assembly at the British Aerospace Airbus site in Broughton, Flintshire, North Wales: BAe has won an award for export recognising an increase in exports of Airbus wings by more than 75 per cent in the past three years. Aircraft deliveries rose during that period from 126 in 1996 to 229 in 1998.

FOOD AND DRINK by John Willman

High flying Scotsmen

Scottish companies with centuries-old businesses dominate the sector's winners

Five companies based in Scotland are among eight from the food and drink sector to have won Queen's Awards for export achievement.The success emphasises the appeal of traditional Scottish products to consumers around the world – and the willingness of their producers to use the most modern marketing techniques.

Typical of the focus on export markets is Glenmorangie, the single malt whisky distiller based 80 miles north of Inverness, since 1893. It only became serious about exporting four years ago, but exports now account for around 40 per cent of sales, making Glenmorangie the world's third best-selling single malt.

The company carried out the world's first online tasting on the internet, with participants in 79 countries. They were able to share their thoughts with the company's distillery manager and ask questions about the company's products which, now include Ardbeg, one of the finest Islay malts recently put back into production.

This year is Glenmorangie's first Queen's award, but Macallan, another single malt producer, has collected its fourth – the second in succession. Exports make up 61 per cent of its turnover, with sales in more than 50 countries for the Speyside malt which is matured exclusively in sherry casks.

Made at Craigellachie in Banffshire since 1824, it was acquired in 1996 by Highland Distillers, which makes Famous Grouse, Scotland's best-selling blended whisky. The new owners have done nothing to change a winning formula: "We've tried to disrupt a growing business as little as possible," says Simon Sanders, corporate affairs director.

Tipplers sipping their favourite malt might well enjoy the shortbread produced by another of this year's winners: Walkers which is also based on Speyside at Aberlour. Founded in 1898 by the village baker, it is run by three of his grandchildren and employs several of the family's fourth generation.

Almost half its annual output goes abroad – the highest percentage in the UK sweet biscuit business – to more than 60 countries. This record has already won two Queen's export awards, making the company one of the few food manufacturers to have held three.

Another traditional Scottish industry is reflected in the award to MacDuff Shellfish, a family firm in the fish business for more than 100 years. In the past three years, it has doubled its exports of the fresh and frozen langoustines, crabs and scallops which are largely landed in Scotland.

Ninety per cent of its £6m a year sales are abroad, with France the most important market where customers include supermarket chains such as Auchan and Casino.

McCormick Europe's Condiment Division, the fifth food and drink award-winner in Scotland, is not Scottish by origin – it is a subsidiary of the US food group which is the world's largest spice company.

Its product is far from traditional: the 49 employees based in Paisley make sauces, dressings, seasonings and poultry coatings for caterers and fast-food restaurants. The division started in 1989 with 18 staff supplying McDonald's 100 UK restaurants and now services the US burger chain's 3,100 outlets throughout Europe – as well as sending its products to 26 countries as far away as Japan and South Africa.

Pritchitt Foods, an English winner, also supplies canteens and caterers – with milk shake mixes and tea and coffee whiteners such as Millac Maid and Cafe Maid. Its core business is converting milk from Northern Ireland into long-life dairy products, often used as ingredients by other food manufacturers.

A more recent debutante is Dorset Cereals, a Dorchester company that launched its wholefood breakfast cereal mueslis only in 1989. Still with only 20 employees, it exports to 45 countries on four continents, making full use of the internet to research opportunities and make contacts.

"Our first exports were to the West Indies, Barbados and St Lucia," says Terry Crabbe, the former BhS manager who fulfilled an ambition to run his own company by buying a wholefood wholesaler in 1985. "Now we sell to almost every Caribbean country and have just received our first order from the Cayman Islands."

The eighth winner in the sector is Corney & Barrow, the City firm which is one of the Britain's oldest wine merchants and takes its second successive award for the wine broking operation it established in 1992. It exports fine wines to the US, Asia and continental Europe, often drawing on the stocks of good clarets and vintage port it stores for private clients.

Adam Brett-Smith, managing director, says the company even sells to customers in France. "London is growing as the international centre for fine and rare wines from around the world."

PHARMACEUTICALS by David Pilling

The UK flexes its muscles

British companies, both large and small, are still a force in the drugs industry

Oxfordshire-based company, Owen Mumford, designs and markets medical devices — Rob Judges

Pharmaceuticals is one of the few global industries where the UK can truly claim to punch above its weight. In Glaxo Wellcome, SmithKline Beecham and the newly formed AstraZeneca it has three of the biggest drug companies in the world. Several US and European pharmaceutical companies have significant research and development facilities in the UK.

Among the plethora of small and medium-sized companies that have sprouted up to service this sector are five of the winners of this year's Queen's award for export.

Akos Healthcare Group is a privately held company that offers consultancy and contract services to "big pharma" – the industry name given to large drugs companies.

Paul Evans, managing director of Akos, spent 18 years working for big pharma at such companies as Glaxo and Boeringer Ingelheim of Germany. A pharmacist by profession, he worked in several areas, including product development, regulatory affairs and clinical development.

Akos usually works on a new product from a very early stage in the development process, helping to take it through clinical trials and advising on regulatory issues, particularly in Europe.

The fact that the European Agency for the Evaluation of Medicine, Europe's equivalent of the Food and Drug Administration, is headquartered in London has given a boost to the 12-year-old company, 85 per cent of whose revenues come from abroad.

Akos exports its services to Denmark, Germany, the US, Japan and Switzerland. It is developing new markets in Israel and Spain.

Cambridge Pharma Consultancy (see profile) also advises big pharma and like Akos is expanding rapidly in the US. Founded in 1989, it has a 50-strong team of consultants in Cambridge and 25 in New York. Like Akos too, both its founders came from big pharma where they discovered what they believed to be a niche in the consultancy market.

Owen Mumford, an Oxfordshire-based company with 250 employees, designs and markets medical devices.

It specialises in two areas: finger-pricking devices (for blood samples), which are often self-administered by patients who need to monitor their condition daily; and drug-delivery devices, particularly injection systems for insulin and growth hormone as well as drugs to treat infertility and multiple sclerosis.

In its early days the company received royalty payments from Novo Nordisk, the Danish group that transformed the lives of many diabetics through the introduction of its "insulin pen".

The company, which was founded by Ivan Owen and John Mumford, has two factories which between then employ more than 200 people. It had a turnover of £12.1m last year, of which £9.5m was for export. That compares with foreign revenue of £4.8m in 1996.

Half its exports go to the US, with Europe, Australia and Japan making up the bulk of the rest.

The Zydis division of Scherer, a multinational company whose ultimate parent is Cardinal Health of the US, is another drug-delivery specialist. Zydis is a leader in turning pharmaceuticals into tablets that dissolve almost instantly in the mouth.

The company has applied its "fast-dispersing" technology to the products of several large pharmaceutical such as Glaxo Wellcome, Schering-Plough, Pfizer and American Home Products. Maxalt, a migraine drug developed by Merck of the US, has been produced in fast-dispersing tablet form by the company.

Zydis sometimes becomes involved in projects at a very early stage – when they are first being tested on people and years before they are placed on the market.

Alternatively, it may be hired by companies to work on products that are about to lose their patent. It is often possible to extend the life of a drug through new formulations. Zydis's technology can also help ease the transfer to the over-the-counter, non-prescription, market.

Zydis has boosted its revenue rapidly over the past five years, from about £5m in 1993 to £40m last year. *Nearly all its business is for* export, principally to the US and Europe.

Powder Systems is a Merseyside-based company that designs and manufacturers "high containment" equipment to protect operators working with dangerous chemicals in pharmaceutical manufacturing plants.

The company, founded 10 years ago, is owned by Morris Pitcher, the managing director; 3i, its venture capital backer; and several private investors. It also makes filtration equipment for pharmaceutical plants.

Powder Systems has doubled its exports over the past three years. Its main markets are western Europe, North America and the Pacific Rim. Last year, it won a *DTI* award for innovation in technology.

PROFILE
CAMBRIDGE PHARMA CONSULTANCY

It's all in the detail

A tiny consultancy has found its specialist services in demand by 'big pharma'

The world is full of consultants. The pharmaceuticals industry, which commands huge resources, is constantly tapping the expertise of big international firms, such as The Boston Consulting Group, PwC or Andersen Consulting, to advise on specific projects or strategic objectives. So why on earth would drug companies, apparently so well served, employ the services of a fledgling consultancy firm based in Cambridge, England?

The reason, argues Joseph Zammit-Lucia, whose Cambridge Pharma Consultancy is a recipient of this year's Queen's award, is that international firms cannot offer as detailed a knowledge of the drugs business.

When he worked for Glaxo Wellcome in the 1980s, he often heard colleagues complain that, while consultants were useful, it was irritating having to teach young MBAs the ins and outs of drug development before they could even get started. Big consultancy firms did have a detailed knowledge of the industry, but it was largely confined to partner level, he says.

Dr Zammit-Lucia thought he had discovered a niche. Together with Lindsey Matheson, who had also spent years working for pharmaceutical companies, he turned his back on the cosy world of "big pharma" and set up his own consultancy in 1989.

The idea was to organise Cambridge Pharma like a law practice, with experts in highly specific areas, such as pricing, reimbursement, drug portfolio management, M&A and doing business in Asia-Pacific.

Each area has a practice leader, enabling the firm, says Dr Zammit-Lucia, to pull together a bespoke team around each project.

"We believe that in-depth knowledge is an essential component of practicable innovation," he says. "We pride ourselves on coming up with approaches for our clients which are both innovative and practicable."

He highlights a project in oncology – client confidentiality prevents him from revealing the company's name – in which Cambridge Pharma reviewed the entire development portfolio. As a result of the review, claims Dr Zammit-Lucia, the company changed the way it developed drugs in this area and opened a new area of operation. Objectivity and a multidisciplinary approach were the keys to bringing off that result, he says.

Cambridge Pharma also runs an on-line consultancy service where relatively straightforward queries can be answered directly.

The overall business, which has grown organically without tapping venture capital funds, reached revenues of nearly £3m by 1996. Since then, growth has been even quicker – thanks largely to rapid expansion in the US, by far the most important drugs market – to reach £6m last year.

Clients include most of the big names in the pharmaceutical industry from SmithKline Beecham in the UK to Eli Lilly in the US to Fujisawa in Japan. Biotechnology companies, such as Biogen, Cephalon and PathoGenesis, also feature on its client list.

Although its base is still firmly in the UK, the scope of Cambridge Pharma's clients and its source of revenue reflects the global nature of the drugs business. About 85 per cent of business is generated outside the UK, with 53 per cent coming from continental Europe and 35 per cent from the US.

The firm has 50 staff based in the UK, though some of them were hired in Europe for their knowledge of languages and other markets. There are a further 25 employees in New York which, with neighbouring New Jersey, is the heartland of the increasingly powerful US drugs industry.

Cambridge Pharma plans to float in the medium term, though it has not yet decided whether it will list in the UK or elsewhere. So far, it has managed to keep its roots in the UK and develop an international business from that base. But, as it expands further, its centre of gravity may well begin to shift to the US.

David Pilling

PROFILE
PARTRIDGE FILMS

Wild ambitions pay off

What started as a one-man operation now supplies wildlife films to leading TV channels around the world

Tigers in Bandhavgargh, India: the subject of a pair of films which will air in the US later this year

Among the offshore equipment manufacturers and the information technology producers dominating the winners of this year's Queen's Awards is a company which deals not with heavy machines and circuit boards but uses exotic plant life and wild animals in its products.

Founded by South African-born film-maker Michael Rosenberg in 1974, Partridge Films started as a one-man operation making high-quality wildlife programmes. As Rosenberg's reputation grew, so did the company, with additional camera teams and producers being taken on a project-by-project basis.

By 1992 the Bristol-based company had been acquired by UK regional television company HTV, which itself was taken over by United News and Media 18 months ago. As part of a previous acquisition of Anglia Television, UNM had inherited the wildlife programme maker Survival, which subsequently joined Partridge in forming United Wildlife, now the world's largest commercial producer of natural history programmes.

With a small team of 31 employees boosted by freelance camera operators, researchers and editors, Partridge still operates as an independent unit, producing high-budget wildlife features such as "The Natural World", screened by the BBC.

It is currently producing a series for ITV in Britain led by Australian naturalist Steve Irwin, the first of which – The Ten Deadliest Snakes in the World – was aired in February last year.

Among the work for which the company is known are the programmes from which UK Channel 4's successful "Fragile Earth" series emerged, while in addition to accolades through the Queen's Awards, the company has won awards including Emmys and Wildscreen Golden Pandas.

This export award is Partridge's second – the first being won in 1992.

Although it has become known for "blue-chip" programmes, Partridge has recently broadened its product range with children's series such as "Amazing Animals" for Disney Channel, which has enabled it to capitalise on its extensive library of wildlife footage.

Exports represent about 75 per cent of Partridge's total sales with 60 per cent of these going to the US where the company supplies leading broadcasters such as PBS, National Geographic and Discovery. Europe accounts for about 20 per cent of sales while 15 per cent go to the Pacific Rim, where the main market is Japan.

"Wildlife [programmes] travel well," says Mark Broughton, managing director of United Wildlife, "because they do not present any political, cultural or language barriers."

Mr Broughton, with a background in financial management and venture capital, joined the company in 1992 to help it through financial difficulties it was then experiencing. "The company had grown rapidly and the accounting structures weren't in place to accommodate this," he says.

Now in its 25th year of existence, Partridge has left such problems far behind it. Turnover during the period measured for the export award, has more than doubled from £3.5m to £7.5m. In the same period exports expanded rapidly from just over £2m to £6m.

Mr Broughton says that the main challenge now is to capitalise on the opportunities presented by the rapidly fragmenting TV market. "In the early 1990s television was a very simple market with not much layering," says Mr Broughton. "But the development of cable, satellite and video means that film rights have become much more valuable."

Sarah Murray

PROFILE
NIKWAX

A polished performance

Waterproofing protective care products for leather and suede have proved winners

Exporting high quality suede leather and waterproofing protective care products has won the Queen's Award for Exports for two family-owned businesses.

Nikwax, based in the village of Wadhurst in East Sussex, has won the award for the second time in three years, while for Charles F Stead, based in Leeds, it is a first time win.

Nikwax is the brainchild of Nick Brown, the company's managing director and majority owner. Mr Brown, 44, was an enthusiastic walker and climber in his youth, and from the age of 15 was interested in mixing waxes and polishes for his boots.

Chemistry was one of his main academic interests at school, but he abandoned plans to study it at university.

Fresh out of university, with a degree in social anthropology, he continued to mix his potions in a tea urn on a primus stove in a start-up workshop in Clerkenwell, London. Encouragement from a sports shop and a £100 bank loan, helped him to establish his business, which now employs a team of 45 people.

Two of his innovations that have seen special export success are a product which waterproofs clothing in a domestic washing machine, and a shoe waterproofing that can be applied to wet footwear, curing as the leather dries, protecting against shrinkage.

Both products are water-based, with water used in place of solvents to carry the active ingredients into the fabric or leather. "We are a chemical company but a clean one," says Mr Brown.

Nikwax started to focus on exporting after making the strategic decision not to market the product to new areas, such as work wear, but rather to reach new markets with the existing portfolio of products which are geared to mountaineering and outdoor sports.

"It was easier to translate our message into a foreign language than change the message," says Mr Brown.

He says: "In the first instance we got the award when exports made up 50 per cent of our sales. Now they exceed 70 per cent with our products sold in over 30 markets. The US is the biggest market, followed by Scandinavia."

Charles F Stead was started in the 1890s and during its existance has been flexible in changing with market demands. It started in business making leather from goat skins, which were used for making bellows.

As demand for bellows fell, the company started to supply the shoe industry, making high quality suede. It takes about 2.2 square feet of leather to make one pair of suede shoes.

Clive Fox, company secretary of Charles F Stead, which employs 165 people in Leeds, says the reason for the company seeking to increase its exports was the demise of the UK shoe industry. "It was needs must," he says. "We had a history of exporting, with records showing that we exhibited at a trade exhibition in Paris in the 1920s, but over the past 10 years the switch has been significant."

Today some 60 per cent of production is destined for exports to 25 different countries, with main markets including quality shoe manufacturers in Italy, Spain, Portugal and Thailand – where a number of US companies have production plants. Hides, which are at the "wet-blue" stage are imported for processing from several countries including South America, New Zealand and Australia.

Mr Fox says that the company applied for the award because it felt it had a consistent record in exporting and its overseas customers would regard the award as a prestigeous award for a prestige product.

Lisa Wood

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PROFILE
LONDON CITY AIRPORT

The business lounge at London City: the airport has targeted the upmarket, time-conscious business traveller

Frequent flyer

Overcoming its 'exceptional restraints', the airport is doing brisk business in the provision of airport services

Once written off by its critics as an expensive white elephant, London City Airport is flying high after winning a Queen's Award for export.

London City is the first airport to win such an award. At first sight it is difficult to image how an airport is an exporter – but in London City's case export earnings come from the provision of airport services to non-UK-based airlines.

First opened in 1987, the airport has grown steadily and now serves 23 European cities with flights from 13 airlines – 60 per cent of which are not UK-based.

The award recognises the "exceptional constraints" the airport has overcome to grow – nearly doubling its export earnings over three years. The airport has limited access by surface transport, a short runway, short operating hours and movement limitations. Yet its growth indicates high demand for a city centre airport and the services it provides. Also taken into account in making the award were London City's marketing strategy and infrastructure developments.

Richard Gooding, managing director, says the airport has capitalised on business demand for a fast and efficient service. Its target is the upmarket, time-conscious business traveller.

The airport is just six miles from the centre of London – and the management has tried to capitalise on its location by pushing time-saving to the limits.

Minimum check-in time is only 10 minutes; exit procedures are even quicker. All facilities – including departure desks – are within easy walking distance and the car park is just outside the terminal.

With about 70 per cent of passengers reaching the airport by road this is crucial. But public transport links should improve with the Jubilee Line extension – from which the airport will operate a bus link – and the proposed dedicated Docklands Light Railway station announced last year and planned for 2002.

"To be the first ever airport to win is a great achievement," says Mr Gooding. "With just over half of the passengers travelling via London City being resident in Europe, we have created a significantly increased contribution to the UK's invisible earnings."

Originally developed by John Mowlem, the building group, the airport was sold to Dermot Desmond, the Irish businessman, in October 1995. Since then improvements have included the redevelopment of departure lounges and improved retail and car parking facilities.

Passenger numbers have increased rapidly since the runway was extended in 1992, showing the greatest increase – of 96 per cent – in 1994. Last month was the best-ever month, with 127,454 passengers, 10 per cent up on March last year. Passenger numbers for the whole of 1998 were 1.4m – a 17 per cent increase over the 1.16m people who flew in 1997.

Also last year, new routes were introduce to Gothenburg, Basel, Glasgow and Luxembourg, plus direct flights to Stockholm.

The airport has increased its focus on flights within the UK. Already this year services have started to Dundee. Later this year the first services to Sheffield will start to be operated by British Regional Air Lines, the publicly-quoted spin off from British Midland, the UK's second biggest airline.

The Sheffield service, due to start in September, will operate four times a day.

The airport has also proved popular with corporate and commercial operators – and in 1996 introduced the airport's first air charter service.

Susanna Voyle

TECHNOLOGY AND TELECOMS by Christopher Price

And the beat goes on . . .

These bouyant sectors are still producing healthy overseas sales for British manufacturers, despite strong competition

The booming global technology market continues to provide handsome rewards for Britain's buoyant information technology industry.

A second Queen's Award has been secured by Enfield-based Data Connection. The group, which was founded in 1981, develops computer software for the telecommunications, conferencing, directory and universal messaging services markets.

Some 97 per cent of Data Connection's earnings come from exports. Its customers include many North American technology companies, including Microsoft, IBM, Hewlett-Packard and Sun Microsystems.

These incorporate the UK group's software, often in preference to their own in-house developments.

Other export markets include Europe, where big telecoms operators are numbered among the group's client base, and Israel, where Data Connection has recently struck a licensing agreement.

The group last won the award in 1992.

There are export award wins for two Belfast-based technology groups: Digital Engineering and Getty Connections. The former wins its first award – and also scoops up a Technology Award – for its export success in the European, south-east Asian and Middle Eastern markets.

The company also supplies testing equipment for the ISDN telecoms market.

Getty manufactures cable, cable assemblies and a range of general equipment wire. Products such as automotive cable harnesses, mobile phone accessories and telephone cordsets are developed from the cable resources.

However, it is Getty's ability to adapt products to different markets, and more importantly to customer specifications that have been at the root of its success. Its 600 products are exported to more than 20 countries across the world, while overseas revenues have more than trebled in the past three years.

Principal customers include Ericsson, Bang & Olufsen and ST Microelectronics.

The media market has long proved fertile territory for Snell & Willcox. The television equipment manufacturer picked up a Queen's Awards for export in 1993 and 1994.

This year it returns to form with another award following an 81 per cent increase in export sales in the past three years. The group puts its success down to its continuing investment in research and development and close contact with customers and the market in order to tailor its products to meet demand.

Snell & Wilcox was established in 1974. Its previous awards came in 1990 and 1994.

The blossoming market for computer service companies has underpinned the rise of Hill Price Davison, a London-based software and services group. However, it has achieved added success through striking strategic partnerships with some of the leading names in the global financial services market.

These include Royal Bank of Scotland, IBM, Hongkong and Shanghai Bank, ABN Amro and Bank of Ireland.

Hill Price Davison specialises in software that enables companies to process their invoices and asset financing calculations. The group also supports its customers with installation, training and maintenance.

Computer storage is another booming market and has helped M4 Data to achieve its first Export Award. The Wells-based group, which was started in 1989, manufactures the magnetic tape drives behind computer data storage facilities.

While its main export markets have been Korea and the US, M4 Data has recently won orders in Malaysia, India and South America. The drive has been strengthened by the establishment of subsidiary companies in the US, India and Germany.

Oxford is becoming reknowned as a fertile base for software companies, a reputation enhanced by the likes of Software 2000, which is located in the city's Science Park. The company specialises in software for printer drivers for personal computers running Microsoft Windows and MacOS operating systems.

It licenses its technology to the world's leading printer companies, resulting in some 35m printer drivers being shipped since 1996. It is Software 2000's second consecutive export prize. The company also won the Prince of Wales Award for innovation in 1994.

Demand for software for the fax market has been behind the rapid rise of Equisys, where export earnings have more than trebled since 1995. The London-based group designs and supplies Zetafax, specialist fax software used by large corporate computer networks.

It has established business partners in more than 30 countries, with its main export markets being north America, Italy, Spain, Australia, Switzerland, Norway and France.

One of the UK subsidiaries of US telecoms group Motorola has been rewarded for its export record with a third Queen's Award in four years.

Motorola GSM Systems Division, located near Swindon, makes and supplies mobile telephone systems. Export markets such as China, South Africa, Portugal, Germany, Spain, Turkey, Austria, UAE and France have contributed to a 65 per cent rise in overseas sales since 1995 – the first year the group received an award.

PROFILE
CRYSTALOX

Performance powered by the sun's energy

The Wantage-based company's silicon ingots are used in the production of solar cells

Crystalox, a small company that produces the silicon ingots which are used to make solar cells, owes much of its recent export success to a Japanese scheme designed to encourage homeowners to use renewable energy sources.

The company, which also builds and sells the systems used in the production of multicrystalline silicon, increased sales to Japan from almost nothing to approaching £2m in less than five years.

This, says Iain Dorrity, marketing director, is mainly thanks to government subsidies which were introduced in Japan that refund some 30 per cent of the cost of installing solar energy.

This helped the company, based in Wantage, Oxfordshire, double its turnover to some £4m in the three years to end-1997 – with some 98 per cent of sales going overseas – and to increase staff by about one quarter to 32 employees.

The company was founded in the 1970s by a small group of scientists, some of them from nearby Oxford University.

Since the end of 1994 when the last of the founders retired, however, the company has been owned by the present management. Mr Dorrity and two other directors are the main shareholders with another three managers also holding stakes in the company.

Mr Dorrity says that the two sides of the business, one producing systems and the other making silicon, are roughly the same size as each other. The silicon production systems are used for both industrial and research purposes.

Crystalox's customers range from large corporations such as General Electric of the US and Exxon, the US oil group, through to the UK's ministry of defence and a long list of universities around the world that use the systems in order to study crystal growth.

The company has significant research and development activities. In 1996, it became the first in the world to offer customers the capability to grow 66cm, 240kg silicon ingots. The ingots, which are then cut up to make solar cells, are more cost effective than smaller versions.

At present, says Mr Dorrity, Crystalox is participating in two silicon-related research projects, partly funded by the European Union, with partners including BP Solar, Bayer of Germany and Elkim of Norway.

Separately, with the help of a grant from the UK government, the company is studying levitation melting of metals – a way of melting metals for high purity applications.

Mr Dorrity says that much research is being done on alternative materials for solar energy but that the company believes silicon, which accounts for 90 per cent of the market, will continue to dominate for at least another five years.

After Japan, the US is the second biggest market with a large part of sales coming from supply of small scale production systems for research use.

Other export markets include Korea, Singapore and China, countries in which the company uses distributors and agents. It handles its own sales in the US and Europe.

"We are not strong on languages so we are lucky that English is the language of science," says Mr Dorrity.

In the immediate future, however, Germany looks as if it could be one of the more promising growth markets, with the introduction of interest free loans for those installing solar powered energy systems.

In addition, Mr Dorrity says that there is pressure on the UK government to stimulate greater use of solar power.

At present, he says, there is just one company he knows of which is producing solar cells in the UK. BP Solar's production bases are all overseas.

"The driving force is environmental. It is still cheaper to burn coal or oil than use solar cells," he says.

"But the use of solar is growing partly because big companies like BP and Shell are becoming quite aggressive."

Virginia Marsh

PROFILE
FFC

The sweet smells of success

Capturing an identifiable Englishness has proved the key to success overseas

An English cottage garden in summer, with the scent of rose, lily and lavender heavy on the air epitomises many people's idea of identifiable Englishness, and is as well-known abroad as the Changing of the Guard, warm beer and Shakespeare.

Capturing, "bottling" and marketing this quintessential aspect of English life has been one of the successes of Fine Fragrances and Cosmetics.

This private company, founded in 1982 by Doug Fawcett, has just won its second Queen's Award for export after its first recognition in 1994. James Doré, the company's export director, is pleased. He believes that the second award confirms all the strengths and builds on the achievements of the company since winning its first award.

He is especially proud of FFC's ethic of service and the company's commitment to turning around orders as quickly as possible, and always within one week. Faxes are not left languishing in baskets as this means disgruntled customers and lost orders.

It is this approach to service, the unashamedly English marketing pitch and the growth of the company through acquisitions which has helped FFC to notch up its export record of more than 60 per cent of production destined for export to more than 80 countries.

Another aspect of the company's success in exporting has been the product labelling and instructions in the language of a particular market – the company packages its products in 18 different language packs from Farsi to Portuguese.

Everything from skincare creams, fragrances and specialist hair care products is labelled for the destined outlet, which although a time consuming and expensive exercise, has paid dividends.

Sales are strong in the Middle East and Asia and have continued to do well despite economic difficulties in both regions.

Mr Dore says that FFC did not leap into Russia and has therefore avoided getting burnt by the economic crisis there. The company is exploring possibilities in Latin America but does not yet have a strong presence there, having focused more on North America where it is starting to reap some benefits in spite of the highly competitive market.

The company first started by developing several specialist skincare products and initial growth came through the "Fade-Out" range of treatment creams which remove brown pigmentation marks on the skin and reduce dark circles around the eyes.

Much of the company's growth has taken place through acquisitions. In 1991, FFC bought the Taylor of London range of toiletries and typical English flower fragrances.

FFC maintained Taylor of London's century-old tradition of quality and added a new range of fragrances to the brand, including Orange Blossom and English Rose. In addition, the Herbal Aromatherapy range was introduced in 1996.

Other brands owned by FFC include Pin-up Home perm, acquired in 1994 and brand leader in the UK. The company has also extended the Mary Chess range of toiletries and continues to market the fragrance.

In May 1998, FFC acquired the colour cosmetic brand "Beauty Without Cruelty", whose cosmetics are made without animal testing. The ethics of the medium priced cosmetics range have wide appeal to the customer with a conscience.

The five Yardley brands of Tweed, Pananche, Lace, Chique and White Satin were acquired from the Yardley receivers in December 1998 and are expected to contribute to the future growth of the business.

Earlier this month, just before the announcement of the Queen's Awards for Export, IWP International – the household and personal care products company purchased FFC for up to £8.75m.

Mr Fawcett will continue as managing director under a three-year service agreement and the company intends to continue marketing the "Englishness" of the brands which have made FFC a success.

Anne Counsell

PROFILE
GAC (UK)

They'd like to teach the world to string

The company's party aerosols make up more than three-quarters of global output

Just as all roads once led to Rome, most of the world's aerosol-propelled "silly string" – the life or bane of so many parties – can be traced back to Cwmbran, south Wales.

Some 30m cans of aerosol string – more than three-quarters of global output and enough to circle the earth 60 times – were produced last year in the Welsh town at the world's only factory entirely dedicated to its manufacture.

GAC (UK) – the company that taught the world to string – won the Queen's Award after exporting more than 90 per cent of its production line 1998.

It expects sales growth of at least 30 per cent this year, mainly because of predicted millennial fervour, according to Stefan Volcke Jnr, marketing director of Goodmark, its parent company. Cans of a special brand, Party 2000, will proclaim: "One world, a million parties."

Apart from being a triumph of frivolous consumption, GAC's success in overseas markets reflects two underlying factors: product safety and reliability, and the ability to satisfy local tastes.

Aerosol string, a tubular resin that solidifies on contact with air, appeared two decades ago – Mr Volcke says no one knows who invented it – but was dogged by safety fears. GAC uses an inert and non-flammable propellant, HFC 134A.

The string comes in six colours, but is always odourless in spite of requests for perfumed varieties.

In part, this is to minimise chances that children (or partying adults the worse for wear) will be tempted to taste it – although the resin is non-toxic.

But GAC also wants to draw a veil over a brief experiment which was called Stinky String, a product created at the behest of a US importer.

GAC's aerosol nozzles create a thicker strand than some of its competitors, making the string less prone to breaking into small pieces and easier to clean up.

Mr Volcke recalled last year's annual sales meeting in the south of France, where GAC staff initially horrified the hotel manager by emptying 500 cans in 10 minutes. They cleaned up the mess in 15 without using a vacuum cleaner.

Sales to the US accounted for 50 per cent of GAC's £10m-plus turnover in 1998, up from £8.5m in 1997. Hallowe'en represents 30 per cent of annual sales, making the US one of the few countries where sales show a seasonal pattern.

Own-label products account for most US sales, where 3-4½ oz cans retail for anything from $1.99 to $4.50.

In Europe, by contrast, aerosol string is sold by volume, usually in 100ml cans, selling for 99p to 149p in the UK. All the cans, however, have the same diameter of 45mm.

Party Success is the main brand in Europe, except in France, where Fil Serpentin reflects language sensitivities.

Goodmark, chaired by Mr Volcke's father, Stephan, is ultimately controlled by Orianda, an Isle of Man company. It bought the Cwmbran factory in 1995 as an expansion of its business in the Volckes' native Belgium, which makes seasonal products such as aerosol snow and gold and silver spray.

GAC is positioning itself as a party products specialist, adding glitters and temporary hair colours to its range. The Cwmbran factory employs about 60 people, although the figure fluctuates with the seasons, out of Goodmark's total of 140.

The continuing challenge for GAC is to make more people think of silly string when they think of parties.

Mr Volcke is confident that even most adults will loosen up for a laugh. He says: "We've seen very serious people in their mid-40s having string fights with kids of 15."

Clay Harris

PROFILE
ILMOR ENGINEERING

Engine maker using the right formula

Racing engines have helped the Northamptonshire-based company race ahead of the competition

Behind last year's Formula One victory of the McLaren Mercedes team led by its drivers Mika Hakkinen and David Coulthard, lies a company based in Northamptonshire.

Ilmor Engineering, a design and manufacturer of racing engines, which manufactures the V10 engine for Mercedes-Benz, is also celebrating its third Queen's Award this year.

Founded in 1984 by Mario Illien, Paul Morgan and Roger Penske, Ilmor, which exports engines to CART (formerly known as Indy cars) teams, has already won the Queen's Award twice, in 1989 and 1994.

Managing director Mr Morgan believes the third award reflects "the hard work and determination to succeed by everybody in the factory".

This year's award follows a successful season where the McLaren Mercedes team won the 1998 Formula One Constructors' and Drivers' World Championships.

The story of Ilmor goes back to the 1970s, when Mr Illien and Mr Morgan met at Cosworth, the UK manufacturers of the Ford Formula One engine. The two worked on Formula One and CART projects but eventually became frustrated with the organisation. They felt that the only way to move forward and to design and produce an engine as they wanted was to leave Cosworth.

After leaving Cosworth, the two put together a business proposal and contacted Mr Penske, founder and president of the Penske Corporation, a privately owned US group, and other transportation groups.

He agreed to take a 50 per cent stake, and once a deal had been made, Mr Morgan set up the Ilmor facility where Mr Illien began work on his engine design.

Since then, the two have had a "perfect partnership" where Mr Morgan is responsible for the manufacture of the engine, and Mr Illien for the design.

Ilmor first raced at CART in 1986 with the backing of General Motors, and since their first CART race in 1986, have won a total of 116 races. They have also won six PPG IndyCar World Series Championships, the Indianapolis 500 seven years in a row, and the PPG CART Series in 1997.

The company produced its first V10 engine for the now defunct Leyton House team. It also supplied teams such as Tyrrell, March and Sauber, and their performance led to their partnership with Mercedes.

GM withdrew its backing at the end of 1993, but the German car maker took over the 25 per cent stake in Ilmor, becoming an equal shareholder along with the three founders.

Mercedes is understood to have provided annual investment of £35m in Ilmor while also giving it assistance through access to Daimler-Chrysler's extensive research resources.

Emiko Terazono

TECHNOLOGICAL ACHIEVEMENT by Paul Taylor

From monitoring to mushrooms

This year's awards cover an astonishing range of innovative developments

Mushrooms that produce their own natural fungicide inspired scientists from Zeneca to develop a new crop fungicide, a telephone network monitoring system developed by Hewlett-Packard is helping telecoms companies catch fraudsters, and microbiologists are now able to detect a single bacteria or cancer cell in just a few minutes thanks to a blue light laser scanner developed by The Technology Partnership.

These three innovations are among the 14 winners of the Queen's Awards for Technology this year – breakthrough developments which range from important medical advances to a system that enhances the quality of video pictures and a revolutionary new type of ship's propeller.

Four of the awards relate to medical advances. Among them, **The Technology Partnership**, based in Royston, Hertfordshire, and Chemunex have developed the ChemScan, an instrument which incorporates the only technology capable of detecting single bacteria in a few minutes without the need for incubation. Applications where such tests are mandatory range from water, food and beverage as well as pharmaceutical products. The system could save companies in these industries alone hundreds of billions of dollars.

"The Holy Grail of microbiologists is the detection and identification of single bacteria without the delay caused by incubation," says TTP's Dr Jas Sanghera. The ChemScan is a laser scanning system capable of finding, within minutes, a single living bacteria in a cup full of liquid. Before ChemScan was developed, detection time ranged from two to 14 days.

ChemScan has also been used at a leading hospital in Paris for rapid detection of very low numbers of both cancer cells in cervical smears and early detection of viral infection cells. It can detect a single cancerous cell in a solution of 50m healthy cells. Until now such levels of sensitivity have been unheard of.

What has really excited the diagnostic and pharmaceutical companies throughout the world is that such results are possible within minutes and with minimal, unskilled manual intervention.

"The greatest cause of errors with existing methods is the tedium involved in staring down a microscope looking at normal non-cancerous cells," points out Dr Sanghera. "Lapse of concentration can mean an erroneous false negative result, whereas the ChemScan does not get tired."

The ChemScan does not make the final decision as to whether further clinical investigations are necessary. It scans all the cells on a slide and if it detects an apparently cancerous cell it maps its position to within a few microns. The sample can then be taken to an automated optical microscope where a decision on further action can be made by a specialist. In this way, it only requires the specialist to make decisions about possible cancerous cells rather than about searching for those rare events in many non cancerous samples.

Other award winners with medical breakthroughs include Coventry-based **Acordis Specialty Fibers** which shares an award with ConvaTec of Deeside, part of Bristol-Myers Squibb, for the development of the Aquacel Hydrofibre wound dressing.

The dressing, which absorbs 25-times its dry weight in sterile saline solution, forms a gel which covers the surface of a wound moulding itself over the contours and ensuring that the wound remains moist. That in turn, prevents the dressing sticking to the wound and makes its removal much less painful than removing dry dressings.

Hewlett-Packard's Telecom System Division gains the award for the development of a highly sophisticated telephone network monitoring system called acceSS7. The system, which is deployed by 25 major telecoms operators around the world, has revolutionised network monitoring and fault correction.

In addition to monitoring traffic and link status, providing operators with early warning of network degradation before it affects customers, the system helps network operators detect and prevent fraud.

Among the engineering companies to win technology awards this year is Clacton-on-Sea-based **Brunton's Propellers**. The company, which was set up in 1868 as millwrights and agricultural engineers, entered the propeller manufacturing business in 1908.

Brunton's, which is now part of Langham Industries, the largest specialist propeller manufacturers in the world, wins the award for the Autoprop, an automatic variable pitch propeller that alters its pitch to suit operating conditions.

The blade pitch is set solely by hydrodynamic and centrifugal forces which means the propeller is much more efficient over a wider range of speeds than conventional fixed propellers.

This translates into higher speeds, reduced fuel consumption and lower emissions. In addition, because of the unique design, the blades rotate 180 degrees when reverse is engaged producing the same efficiencies. When fitted to yachts the blades feather when under sail, reducing drag and increasing speed.

But perhaps the most exciting winner this year is **Zeneca Agrochemicals** with Amistar, a novel fungicide which acts as both a protectant and curative.

The inspiration for Amistar lies among the decaying debris on the floor of European deciduous forests where fungi have evolved that feed on the dead wood and leaf litter.

Although numerous fungi species compete against each other, Zeneca scientists noticed clear areas around some delicate vulnerable species. They discovered that two particular fungi species produce a natural fungicide which fights of competitors and stops them encroaching on their territory.

After a decade of painstaking laboratory work, that discovery eventually led to the patenting of Azoxystrobin in February last year, heralding what Zeneca claims is "the start of a new era of crop protection from diseases."

The new fungicide forms a protective film on the outside of plants which prevents fungus from entering the crop, while also entering the plant itself stopping the development of fungus from within.

Tests have confirmed that Amistar provides excellent diseases control and is effective agains a wide range of fungal disease resulting in significant crop yield gains. The natural origins of azoxystrobin mean it is also environmentally friendly and is safe.

Close inspection: Brunton's propellers wins an award for technological achievement in recognition of the development of its Autoprop, a propeller which alters its pitch to suit the conditions of the vessel on which it is mounted Anglia Press Agency

The Queen's Award for Environmental Achievement 1999

Name	Location	Product/process
Jesse Brough Metals Group	[illegible], Staffordshire	Recycling of furnace waste
Esmil Process Systems	High Wycombe, Bucks	Zero discharge wood pulp effluent and water recovery system
Exotherm Products	Cardiff, Wales	Energy efficient electrical heaters - "[illegible]"
Synetix (a member of the ICI Group)	Billingham, Cleveland	HYDECAT: a fixed bed catalytic destruction technology for waste sodium hypochlorite
Zeneca Metal Extraction Products	Blackley, Manchester	Novel magnesium-based process used in the manufacture of copper mining chemical P50

The Queen's Awards for Technological Achievement 1999

Name	Location	Product/process
Acordis Specialty Fibres	Coventry, West Midlands	AQUACEL, Hydrofibre, wound dressing
AirSense Technology	Hitchin, Hertfordshire	Stratos-HSSD incipient fire/smoke detection system
Alstom Energy	Rugby, Warwickshire	Advanced 3-D steam turbine blading with improved efficiency for high-power density applications
Brunton's Propellers	Clacton-on-Sea, Essex	"Autoprop" automatic variable pitch marine propeller
ConvaTec	Deeside, Flintshire	AQUACEL, Hydrofibre, wound dressing
Digital Engineering	Mallusk, Belfast	Design/development of ISDN central office simulators that emulate different country variants of ISDN telecoms worldwide
Glaxo Research & Development	Greenford, Middlesex	Diskus: multidose dry powder inhaler
Telecom Systems Division	South Queensferry, West Lothian, Scotland	HP acceSS7: the standard for SS7-based network monitoring and data-mining in telecoms
Immunodiagnostic Systems	Boldon, Tyne & Wear	Determination of Vitamin D in human serum & plasma
Marathon Belting	Rochdale, Lancashire	COPSIL: a press compensating mat
Exhaust Gas Cooling Division	Birmingham, West Midlands	Exhaust gas cooler (for diesel emissions improvement)
Snell & Wilcox	Petersfield, Hampshire	MPEG compression pre-processor for high-quality noise reduction digital decoding of video signals
The Technology Partnership	Royston, Hertfordshire	ChemScan; RDI for microbial detection and identification
Zeneca Agrochemicals	Haslemere, Surrey	AMISTAR fungicide

ENVIRONMENTAL ACHIEVEMENT by Vanessa Houlder

Putting a gloss on the dross

Methods of dealing with waste are proving profitable

A single theme dominates this year's Queen's Awards for Environmental Achievement: the search for better ways of dealing with manufacturing waste.

Four of the five winners have developed new processes for treating waste from manufacturing processes. In so doing, they have cut costs, reduced the risk of environmental damage and, in some cases, transformed the waste into benign and useful products.

Jesse Brough Metals Group, a Staffordshire-based business, has won the award for an innovative process to help the aluminium industry purify dross, the waste generated during smelting.

It has come up with a method of recycling dross that offers an environmentally-friendly alternative to dumping the waste in landfill sites.

The technique involves separating the dross into metallic aluminium and metallic oxide products. As well as extracting the metal, the company processes the oxide products. They are classified, mixed and blended into powdered metallurgical products, which are used in steelmaking, ceramics and aggregates. As a result, the company avoids the need to send the dross to landfill tips.

Esmil Process Systems, a company employing 15 people based in High Wycombe in Buckinghamshire, has also developed a process that saves costs by recycling waste products. Its "zero discharge" wood pulp effluent and water recovery system reuses all the waste, both liquid and solid, from the manufacturing process.

It recovers the suspended and dissolved solids in the forms of a dewatered "cake", which is fed as fuel into a waste heat recovery boiler. The liquid waste is purified and re-used in the manufacturing process. The process has a double financial benefit: it turns the waste into useful products and eliminates disposals costs.

Synetix, a Billingham-based company that is part of ICI, has also found an environmentally-sensitive method of dealing with manufacturing waste. Its HYDECAT process deals with the sodium hypochlorite – better known as bleach – which is produced whenever chlorine is produced or used.

Bleach is not usually considered to be a useful by-product from chlorine manufacture, because the market is relatively small. Moreover, it is potentially hazardous – a leak can cause widespread damage to local wildlife.

Conventionally, the bleach has been treated by adding another chemical before its disposal. But this approach is costly and risks creating an environmental hazard if the wrong dosage of the second chemical is used.

The novel process developed by Synetix in the late 1980s uses a metal catalyst to decompose the bleach, converting it to oxygen and salt, which are both easy and safe to dispose of. The process, which is now installed in more than 20 units around the world, allowed one of Synetix's customers to reduce the cost of treatment hypochlorite from £300,000 to £30,000 a year.

Zeneca Metal Extraction Products, a specialist chemical company based in Manchester which is part of Zeneca Group, won its award for a novel process that dramatically reduces the overall quantity of effluent from one of its production processes. It also replace a hazardous effluent with one that is environmentally benign.

The company's researchers wanted to improve the manufacturing process of a complex chemical known as P50, which is used to extract copper from waste ore, so that it did not produce toxic by-products.

The result was a magnesium-based process that produced magnesium sulphate as a by-product which can be safely released into the environment. The technology reduced the components of the effluent by 85 per cent for each kilo of product.

By addressing the shortcomings of the previous process, Zeneca was able to scale up its manufacturing process and increase yields by 30 per cent and significantly reduce production costs.

Cardiff-based **Exotherm Products** has developed an energy-efficient electrical heater for melting plastic for the plastic moulding industry. By using improved materials for the heating coils, the power consumption of the heaters has been reduced by at least a third. For the customer, the device offers both reduced energy bills and an improved environment for machine operators.

On the face of it, Exotherm has little in common with the other winners of the award, because it is not tackling waste from a specific manufacturing process. But, in reality, it offers a variation on the same theme. By cutting energy consumption, the product is helping reduce emissions of greenhouse gases, which is one of the most problematic waste issues faced by the industrialised world.

The old adage "where there's muck, there's brass" still holds: dealing with other peoples' waste can be a profitable business. But, as these Queen's Awards demonstrate, there are also rich dividends from reducing or eliminating waste altogether.

NEW YORK THEATRE

'The Iceman' and 'Amy' hit Broadway

Two imports from London's West End are the hottest tickets in town, says **Brendan Lemon**

"I'll be the weak fool looking with pity at two sides of everything till the *day I die!*" shouts the despondent anarchist Larry Slade near the end of O'Neill's *The Iceman Cometh*, and the sentiment gets at what is both schematic and compelling in not only the O'Neill play, which is being given a revival at the Brooks Atkinson, but also in David Hare's 1997 drama *Amy's View*, which has just opened on the facing side of West 47th street. These London imports, which are experiencing the kind of hard-to-get ticket status usually reserved for starry musicals, are an actors' face-off, too: in the O'Neill jersey, Kevin Spacey; wearing Hare's colours, Judi Dench.

Set in 1912 in a Manhattan saloon, which has been fitted out by the designer Bob Crowley in snug naturalistic fashion, *Iceman* contains the blunt duality of a thesis play: in this case, truth versus illusion. Each of the broken-down bums and whores in this Hopperesque flophouse has a "pipe dream" that is recounted while the holder waits Godot-like for the salesman Hickey (Spacey), who will try to strip them of their hope-fuelling lies.

O'Neill's thesis device severely limits the play's claim to masterwork status, at least if we are to reserve that accolade for the playwright's later, greater *Long Day's Journey Into Night*. But within his tidy *Iceman* structure O'Neill packs so many stories and songs, lilts and lamentations, that a lively production, which the new revival, directed by Howard Davies, certainly is, can transcend the play's limitations.

Nonetheless, the play's core is essentially a point-counterpoint between Larry and Hickey, and everything else is orchestrated around their debate. Larry, blusteringly played by Tim Pigott-Smith, is the exponent of pity and the necessity of illusions, Hickey the partisan of the purging power of truth. Luckily for the audience, the ethical rigour to which they subject the saloon's denizens does not rob the play of its enormous entertainment value.

How could it, when the production's supporting cast, most of whom are new to the Broadway version, is so festive? Almost all of them – from Paul Giamatti's soulful Jimmy Tomorrow, whose final speech is almost unbearably moving, to Michael Emerson's Willie Oban, whose sodden Harvard drinking song puts one in mind of Joseph Mitchell's real-life Harvard down-and-out, Joe Gould – are excellent. The exception is Robert Sean Leonard's Don Parritt. This young man with a guilty conscience is a prototypically thankless role, all torture and ties, but it is not unplayable, and Leonard has thus far failed to find a way to unlock its secrets.

Spacey, on the other hand, the impetus for the production's journey from London's Almeida to the West End to Broadway, is so far into his role that he seems to be grinning at his own progress. This is not meant as a criticism; a coiled, charismatic, and sometimes unctuous actor, Spacey has always liked the sound of his own voice, and if he has perhaps too much opportunity to listen to himself here that is O'Neill's doing as much as the performer's.


Actors' face-off: Judi Dench in David Hare's 'Amy's View' and Kevin Spacey in Eugene O'Neill's 'The Iceman Cometh'

In its trip from London to New York, Judi Dench's Esme Allen has undergone a contrasting metamorphosis: her performance feels more economical. Such a change is in keeping with Esme's emotional trajectory: at the beginning of the play she is a West End actress with a suburban-country house; at its end a reduction in circumstances has forced her to "dig deeper" into her craft.

Would that Hare had done the same with his sometimes shrill script. Like *Iceman*, *Amy's View* is almost impossibly schematic. Unlike the O'Neill drama, however, the Dench vehicle lacks humane heft and sprawl. Essentially a debate between Esme, who stands for an England of theatre and flower shows and pub suppers, and her son-in-law Dominic, who embodies movies and fast money and incessantly ringing mobile phones, the play stacks the deck in favour of Esme's values. By tenaciously holding on to them she may lose everything, but Hare imbues her with a kind of spiritual grace he does not allow Dominic.

Dominic's unlikability is exacerbated by the performance of Tate Donovan, the American actor who portrays the ambitious tyro on Broadway. Dominic had always been a lout, but now, thanks to Donovan's wavering technique, he is a lout with a lousy accent. Yet such is the undeniable quiet power of Dench's Esme, and Hare's crude yet compelling story, that, whatever one may think of its dramaturgy, *Amy's View* lingers in the mind long after the curtain has come down.

'The Iceman Cometh' is at the Brooks Atkinson Theatre; 'Amy's View', the Ethel Barrymore Theatre.

NEW YORK CITY OPERA INTERMEZZO

A slice of life from Strauss

Readers of the vital Strauss-Hoffmannsthal correspondence have long known that, while he may have lacked the verbal refinement of his librettist, the composer himself had a persuasive way with words, a keen and lively mind. And so it should come as no surprise to learn that when, forced to do without the poet, Strauss sat down and wrote his own libretto, he produced a well-made, entertaining, and often affecting piece of work, which he then set to a rich, shimmering score.

On the surface, the work is simple,

On the surface, the work is simple, domestic; but in giving body to his little drama, Strauss filled it with nuance

domestic; and its very simplicity may be the reason why, in the decades since it was written (in 1923), critics and also audiences have tended to dismiss it.

Unabashed, the librettist Strauss narrates a conjugal dust-up, a real event in his own life, when his notoriously difficult (but deeply-loved) wife, convinced of his infidelity, threatened to divorce him. But the composer Strauss, in giving body to his little drama, filled it with nuance: thus, in the opening scene, when the impossible Frau Storch is scolding, commanding, arguing, some langourous, hauntingly romantic phrases are adumbrated in the orchestra, a restrained complement to the wifely rant. Only later are these sumptuous phrases allowed to develop, to swell and glow and reveal their full beauty, on a level with the greatest moments of *Arabella* and *Rosenkavalier*. And, speaking of *Rosenkavalier*, there is also a superb waltz scene in *Intermezzo*, as Strauss offers yet more proof of his dancing, magic wit.

For all its humour and its excellent facture, *Intermezzo* cannot be an easy work to mount; and, in fact, this City Opera production is the first full staging in New York (about a decade ago Andrew Porter devised a "semi-staged" performance that has remained memorable). This new staging – based on a 1990 presentation at the Glimmerglass Festival upstate – was in the hands of Broadway director Leon Major, who won the appreciation of the audience with some effective jokes, turning the orchestral interludes between the numerous scenes into comic pantomime. Some of these, finally, outstayed their welcome (especially a rainstorm episode that exhausted the comic possibilities of wind-whipped umbrellas).

But, fortunately, Major was able to count on the presence of the versatile, always impressive Lauren Flanigan as Christine (as Strauss called his heroine): domineering, gullible, basically good and loving, always human, the City Opera's star soprano illustrated every contradictory facet of her challenging part. And, while her hectoring scenes were convincing and funny, she could also summon melting, sweet tones, pearly high notes, and silken phrasing in the tender, pensive scenes which the composer naturally provided for her.

The part of Strauss's alter ego, composer-conductor Robert Storch, was sung by the young baritone John Hancock, a strong stage presence and a strong, suave singer. In his assured, steady way, he matched the bravura of his leading lady. As the feckless Baron Lummer, the tenor Matthew Chellis (a NYCO Almaviva and Nanki-Poo), was convincing, even appealing.

Illustrating every contradictory facet of her challenging part: Lauren Flanigan

The hard-worked George Manahan (he is conducting the lion's share of this season's repertory) seemed to have a special sensitivity to this score: the orchestra sounded rich without over-dramatising the contradictions, and he resited what must have been a terrible temptation to give the emotions free rein, to indulge the many romantic hints. As a result, the work retained its conversation-piece quality, and though Flanigan's considerable talent was appropriately exploited, she did not give us simply a star turn.

Martha Mann's costumes looked like real clothes; this was her auspicious NYCO debut. Also working with the company for the first time, Andrew Jackson designed bright, versatile sets, matching the clarity of the Porter translation and the enunciation of the cast.

William Weaver

MUSIC IN BLOOMINGTON LEONARD BERNSTEIN

Effect is not everything

It seemed a perfect idea. Leonard Bernstein, the greatest all-round American musician of the century, would have been 80 this year. Although, since the recorded legacy lives on, there is no need to re-assess his conducting skills, his wide-ranging but relatively small body of music – sometimes reviled, occasionally over-praised – does demand constant reconsideration.

He cherished his association with the Music Faculty of Indiana University in Bloomington, and it was that institution which hosted "Leonard Bernstein: An Eightieth Anniversary Celebration".

Bloomington certainly has the necessary resources. Its 1,800 students enjoy a state of the art opera theatre and concert hall, with a stage as big as that at the Met with all the necessary accoutrements, even though its auditorium is relatively small. But after a few days of the festival my impression was that everything being done here was for the good of the institution's image rather than for genuine educational benefit, properly integrated into the curriculum of the students. Precious few of them attended most of the concerts I went to, with the exception of the 1954 Serenade for violin and orchestra, one of Bernstein's most accomplished works, which was played – superbly – by faculty member Yuval Yaron. He was ably supported by the Chamber Orchestra under the baton of one of Bernstein's later protégés, Michael Morgan, another name to watch.

The other concerts I heard were also impressively accomplished. Bloomington is strong on singers and the soprano Holly Wilson gave a polished, sharply observed performance as Dinah in the one act opera *Trouble in Tahiti* in the Chamber Orchestra concert. In another concert mezzo Kimberley Gratland James and baritone David Meyer were both excellent in Arias and Barcarolles, and another mezzo, Janice Hauxwell, and a bass, Matt Curran, shone

Excerpts from 'Candide' were a reminder of just how marvellous his tune-writing could be

out from the sextet of singers in a resourcefully scored two-piano version of *Songfest*. A former Dean, Charles Webb, and another young conductor, Michael Barrett, who had conducted *Chichester Psalms*, the *Divertimento*, *Opening Prayer* and the hilarious Auto-da-fé scene from *Candide* in the University Orchestra's concert the previous evening, were the pianists.

Bernstein's vocal music tends to be either merciless in its candour, extremely sentimental, or simply very clever in its play on words and sounds. Yet sometimes it seems to miss something; rather like much Poulenc it decorates rather than grips. And sometimes his inevitable hastiness shows, though the excerpts from *Candide* served as a reminder of just how marvellous his tune-writing could be.

But perhaps the first two symphonies, *Jeremiah* and *The Age of Anxiety*, given in the opening concert by the Philharmonic Orchestra, the *crème de la crème* of the faculty, under David Effron, do show marks of greatness. Both are impressive achievements and both were magnificently played, with important contributions from another singer, Masako Teshima (studying in New York) in *Jeremiah* and from pianist Bloomington professor Shigeo Neriki in the demanding concertante role in *The Age of Anxiety*.

This concert also included a piece in which Bernstein had no hand, save as provider of the prize money for the Leonard Bernstein Young Composers Competition it has just won. *Drip* by David Mallamud, a 25-year-old Philadelphian, held the interest for a boldness it promised rather than achieved. Owing something to John Adams's variety of minimalism and to the filmic language of certain American composers keener on popularity than substance, this work seemed nevertheless to contain the seeds of something more individual. Mallamud has another orchestral commission with a catchy title, *Frenzy*, scheduled for a world premiere at Carnegie Hall in May. I would be intrigued to hear from him a string quartet called *String Quartet*. Even the showman Bernstein would agree that effect is not everything.

Stephen Pettitt

INTERNATIONAL

Arts Guide

AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
Nederlands Dans Theater I: programme of works by Inger, Lightfoot, Kylián and Van Manen; Apr 21, 23

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Otello: by Verdi. Conducted by Carlo Rizzi in a staging by Klaus Michael Grüber, with a cast led by Vladimir Bogachov; Apr 22, 25

BERLIN

DANCE
Deutsche Oper
Tel: 49-30-34384-01
Tokyo Ballet: in a Maurice Béjart programme comprising Stravinsky's Le Sacre de Printemps and Petruschka, and Ravel's Bolero; Apr 21

COPENHAGEN

EXHIBITION
Louisiana Museum of Modern Art, Humlebaek
Tel: 45-4919 0719
www.louisiana.dk
The Asian City of the 90s: display focusing on the processes of cultural, political and economic development in Asia, and on the dialogue between East and West; to Apr 21

FLORENCE

CONCERT
Teatro Comunale
Tel: 39-055-211158
www.maggiofiorentino.com
Orchestra del Maggio Musicale Fiorentino: conducted by Semyon Bychkov in works by R. Strauss and Brahms, with piano soloist Andrea Lucchesini; Apr 22, 23

OPERA
Teatro Comunale
Tel: 39-055-211158
www.maggiofiorentino.com
The Queen of Spades: by Tchaikovsky. Conducted by Semyon Bychkov in a staging by Lev Dodin, in a co-production with Netherlands Opera and Opéra National de Paris; Apr 21, 24

HOUSTON

OPERA
Houston Grand Opera, Wortham Center
Tel: 1-713-227 2787
www.hgo.com
Resurrection: world premiere of Tod Machover's new opera set in Tsarist Russia, with a libretto by Laura Harrington. Patrick Summers conducts a staging by Braham Murray, with designs by Simon Higlett; Apr 23, 25

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
Plácido Domingo: zarzuela concert, with the Orchestra of the Royal Opera House conducted by Miguel Roa, soprano Ainhoa Arteta and mezzo-soprano Cecilia Diaz; Apr 25
Queen Elizabeth Hall
Tel: 44-171-960 4242
London Mozart Players: Matthias Bamert conducts works by Bach, Beethoven, Mozart, and Michael Nyman. Featuring Bruno Leonardo Gelber on piano, David Juritz on violin, and Judith Busbridge on viola; Apr 22
Royal Festival Hall
Tel: 44-171-960 4242
Philharmonia Orchestra: Christian Thielemann conducts in works by Schumann, Mozart, and Brahms; Apr 22

EXHIBITION
National Gallery
Tel: 44-171-839 3321
Portraits by Ingres: Images of an Epoch: 40 paintings and 50 drawings by the 19th century French painter. Includes major loans from museums in France, the US and elsewhere; then touring to the US; to Apr 25

FESTIVAL
London Handel Festival
Tel: 44-181-336 0990
London Handel Festival: highlights include a staging of Handel's opera Lotario at the Britten Theatre, with the London Handel Orchestra conducted by Denys Darlow/Paul Nicholson and soloists from the Royal College of Music (Mar 23-25); concerts at St. George's Chapel, Windsor Castle, St. George's Church, Hanover Square and St. Andrew's Church in Holborn; to Apr 25

OPERA
Sadler's Wells
Tel: 44-171-863 8000
The Royal Opera: Paul Bunyan, by Benjamin Britten. Staging by Francesca Zambello, conducted by Richard Hickox (replaced by Chris Willis on Apr 27); Apr 23, 24, 26

LOS ANGELES

CONCERT
Music Center: Dorothy Chandler Pavilion
Tel: 1-213-365 3500
www.laphil.org
Los Angeles Philharmonic: conducted by Alan Gilbert in works by Bernstein, Ruggles, John Williams, and Copland; featuring David Breidenthal on bassoon; Apr 22, 24, 25

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● European Brass Band Championships; Apr 24
● Munich Philharmonic Orchestra: conducted by Manfred Honeck in works by Wolf and Tchaikovsky; Apr 21, 22, 23

NAGOYA

EXHIBITION
Nagoya/Boston Museum of Fine Arts
www.nagoya-boston.or.jp
Art of the Ancient Mediterranean World: inaugural long-term display of more than 220 objects, ranging from prehistoric Egyptian earthenware to a fresco from Pompei; to Jul 15

NEW YORK

CONCERT
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: conducted by Colin Davis in the world premiere of James MacMillan's The World's Ransoming, with English horn soloist Thomas Stacy. The programme is completed by Bruckner's Symphony No. 9; Apr 22, 23, 24

EXHIBITION
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
18th Century French Drawings in New York Collections: highlights of a century of collecting, featuring 100 outstanding examples by 59 artists including Watteau, Boucher and Fragonard; to Apr 25

OPERA
New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycopera.com
Madama Butterfly: by Puccini. Conducted by Guido Johannes Rumstadt in a staging by Mark Lamos with sets by Michael Yeargan and costumes by Constance Hoffman; Apr 22, 24

PARIS

EXHIBITIONS
Grand Palais
Tel: 33-1-4413 1730
Un ami de Cézanne et de Van Gogh: le docteur Gachet (1828-1909). Exhibition devoted to the doctor and painter who was a friend to Cézanne, Pisarro, Monet and Renoir as well as to Van Gogh; then transferring to New York; to Apr 26
Musée du Louvre
Tel: 33-1-4020 5151
www.louvre.fr
Le Pyramide du Louvre à 10 Ans: programme of lectures, walks, concerts and films, celebrating the pyramid's 10th anniversary; to Apr 21

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
Lohengrin: by Wagner. Conducted by Mark Elder in a staging by Robert Carsen, with designs by Paul Steinberg; Apr 22, 25

TORONTO

OPERA
Canadian Opera Company, Hummingbird Centre
Tel: 1-416-363 6671
www.coc.ca
The Golden Ass: by Randolph Peters. A world premiere with a libretto by Robertson Davies based on the ancient fable; directed by Colin Graham and conducted by Richard Bradshaw; Apr 21, 23, 25

VIENNA

OPERA
Wiener Staatsoper
Tel: 43-1-51444
Cavalleria Rusticana: by Mascagni/Pagliacci by Leoncavallo. Simone Young conducts a staging by Jean-Pierre Ponnelle; Apr 25

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

MARTIN WOLF

The cost of debt

Private-sector bank lending to emerging markets should be made more costly in order to prevent excessive reliance upon it

The spring meetings of the International Monetary Fund and World Bank in Washington may be a last chance for policymakers to learn lessons from two years of turmoil in emerging markets.

Already, as order returns to financial markets and the afflicted economies begin their slow return to health, the attention of policymakers is beginning to wander. But those who do not learn from experience are doomed to repeat it.

One lesson, now widely accepted, is that adjustable peg exchange rates are very dangerous. Another, as yet insufficiently accepted, is that foreign currency debt is an enormously risky way to finance economic development. Efforts to make these risks more apparent – to "internalise" them, as economists say – would be desirable even if they reduced capital flows. Indeed, they are desirable *because* they should reduce these flows.

Unfortunately, a powerful lobby – the creditor institutions – is stoutly opposed to almost all the measures needed to achieve this result. The banks' position can be judged from recent analyses by the Washington-based Institute for International Finance, the "global association of financial institutions".*

The IIF's central point is that the 1990s have, in practice, seen a completely different approach to international financial crises from that of the 1980s. In the 1980s, syndicated loans from international banks to sovereign borrowers were the dominant form of financial flow. Consequently, rescue packages included rescheduling and ultimately the writing off of much of the lending. But in the context of the "more robust and diversified capital markets of the 1990s", a different and – for the lenders – more satisfactory approach has emerged. This consists of "prompt restoration of confidence and access to private capital markets through policy adjustments backed by sizeable but relatively short-term official financing".

The IIF's description of what has been happening is, alas, correct. Then, in keeping with the welcome it gives to this approach, it goes on to argue against virtually any compulsion upon private lenders.

Voluntary agreement is, agues the IIF, preferable to coercion in overcoming the collective action problems attendant upon the creditor rush for the exit. Similarly, it rejects imposed standstills on payment, compulsory rescheduling of loans and lending by international financial institutions to countries in arrears, unless consent from the bulk of private lenders is forthcoming. Again, it opposes the forced incorporation of procedures for the rescheduling of loan contracts at times of crisis.

Yet, while the IIF sets itself against "dirigiste solutions", it is happy to see governments come forward with money raised – by dirigiste means – from their citizens. Unsurprisingly, it also sees little or no "moral hazard" in provision of public funds for the rescue packages. It is also happy to see "official sector risk mitigation . . . on a limited, targeted basis to facilitate" a country's return to the capital market.

The IIF justifies its support for the present approach and rejection of compulsion or any official action to strengthen the hand of debtors, by arguing that this would increase the cost and lower the supply of lending. Indeed, it specifically refers to the "scar tissue" left behind by the forced reschedulings of the 1980s. These scars, it argues, delayed new lending.

The IIF position is obviously self-interested. It is also cheeky. What it ignores is the pivotal role played by bank lending in causing these crises.

Look at the table. Between 1993 and 1996 net lending by banks accounted for 71 per cent of the increase in total net capital flows and 62 per cent of the increase in private net flows to the 29 most important emerging market economies.

What came in then rushed out: net lending by banks accounted for 110 per cent of the decline in total net flows and 81 per cent of the decline in private net flows between 1996 and 1998. The swing in the current account of the Republic of Korea between 1996 and 1998 was around 18 per cent of gross domestic product; in Thailand, it was even greater, at 20 per cent of GDP. Such massive external adjustments are inevitably associated with deep recessions and cause mass bankruptcy in the private sector. Yet without the banks there would have been no crisis: for the five most affected Asian economies, three-quarters of the net swing in private external finance, between 1996 and 1998, was accounted for by the commercial banks alone.

The banks, in particular, and debt-creating inflows, in general, have therefore been behind all the volatility. Direct investment has been impressively stable. While the movements of portfolio equity have been more unstable than direct investment, it does at least have the advantage over lending that an outflow generates declining equity prices rather than mass bankruptcy among those who received the money.

Why should institutions that bear so much of the blame for the crisis dare to argue for official rescue? Their answer – that rescue guarantees the swiftest possible return to lending – is unpersuasive, not because it is untrue, but because a return to large-scale lending is itself undesirable.

Short-term debt is an intrinsically risky form of finance. In the domestic context, however, the presence of a credible lender of last resort, of tough regulation and of effective bankruptcy procedures helps make the risks manageable. On the international stage, however, there are no equivalent institutions. Even well-developed bankruptcy procedures are unable to cope with the bankruptcy of much of the corporate sector, as has happened in Indonesia.

For fragile emerging economies, in particular, short-term foreign currency debt provided by politically powerful institutions subject to fits of extreme euphoria and panic is more than risky; it verges on the suicidal. The most important single objective of reform of the financial system should, therefore, be not to maximise the flow of debt-creating international finance. That would be unreasonable, given the costs imposed by reversals of those flows, especially if a country has a sizeable current account deficit.

The aim should, instead, be to increase awareness of the risks. That is why heavy taxes upon short-term capital inflows are sensible. It is also why it is right to insist upon changes in debt contracts that would allow smooth renegotiation of those contracts should circumstances become unexpectedly adverse. In the absence of a lender of last resort or smooth bankruptcy procedures, foreign currency debt has to be made more flexible and easier to renegotiate.

Contrary to the IIF's argument, what it calls the 1990s approach to financial crises – the combination of large-scale official support with fierce adjustment in borrowing countries – has proved a depressingly unsatisfactory way to run the financial system. The risks of debt-creating finance, particularly from banks, are too great. Instead of accepting the IIF's assumption that creditors must never be compelled to adjust, that is precisely what those responsible for the international financial system should be seeking, ideally in the initial loan contracts.

Inevitably, enforced changes in contracts that facilitate renegotiation or allow automatic rescheduling, subject to penalties, will reduce the willingness to lend and increase the price of loans. But that is a consummation devoutly to be wished. The sooner those involved internalise the risks, rather than hope, as now, that they can be shifted on to someone else, the better for everyone.

**Report of the Working Group on Financial Crises in Emerging Markets, January 1999, Involving the Private Sector in the Resolution of Financial Crises in Emerging Markets, April 1999, http://www.iif.com/public.htm.*

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How the banks helped create the emerging market crisis
Net capital flows to 29 major emerging market economies ($bn)

	1993	94	95	96	97	98
Total	187.6	196.2	269.7	331.6	298.5	195.7
Public	22.5	26.2	40.9	3.6	36.9	52.5
Private: of which	175.1	170.0	228.8	328.2	261.6	143.2
Banks	25.2	43.4	99.5	120.4	30.9	-29.1
Other creditors	66.2	30.0	23.4	78.8	88.7	49.4
Direct investment	40.6	67.2	81.4	93.3	116.2	120.4
Portfolio equity	43.2	29.4	24.4	35.7	26.7	2.4

Source: Institute for International Finance

LETTERS TO THE EDITOR

West will lose interest in follow-through

From Mr Geoffrey K. James.

Sir, One hopes Philip Stephens' optimism about the prospects for military success in Kosovo will prove justified ("Fighting a just war", April 16). Several concerns come to mind, however. First, what will be Nato's solidarity and commitment to Kosovars once Slobodan Milosevic has moved Serbian civilians – say, the Krajina refugees – into Kosovo? Given western politicians' squeamishness, a resolve to return by military force to the status quo ante seems inconceivable.

Second, public statements in the west have consistently made clear our intent to return the victims of Serbian madness to the perpetrators in defiance of logic, decency and the Albanians' own rejection of the very notion. Such a lack of seriousness comforts only Belgrade.

Third, of concern is the absence of any discussion as a military and political objective of reducing permanently the Serbian ability to threaten its neighbours. If the underlying rationale of western policy in the Balkans is the fear of a powder-keg in the region, would not a long-term military presence and a ferocious policy of containment be a priority, and articulated as such? One can imagine all too easily the west quickly losing interest in the necessary follow-through once Mr Milosevic gives the slightest indication of (feigned) flexibility. The smell of a sell-out is in the air.

Geoffrey K. James,
attorney at law,
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From Mr John C. Carras.

Sir, The implication that one has to support either Slobodan Milosevic or Nato bombing in Kosovo is misleading. In fact it is quite possible to condemn Mr Milosevic's aims and methods while believing that the Nato bombings are an inappropriate way of combating them. Nato has so far succeeded in:

- Undermining the UN and therefore international law.
- Strengthening Mr Milosevic's position in Serbia.
- Seriously weakening Milo Dinkanovic, president of Montenegro.
- Undermining Ibrahim Rugova, elected president of the Kosovars, in favour of the Kosovo Liberation Army; providing Mr Milosevic with an opportunity to ethnically cleanse on a scale that would have been inconceivable without war and the removal of United Nations verifiers.
- Undermining the security of Albania and above all Macedonia with its large volatile Albanian minority.
- Laying itself open to charges of hypocrisy when Kosovo is compared with Krajina.

If Nato is serious about helping refugees to return home and preventing a complete breakdown of stability in the Balkans, compromises must be made by all for a political solution as soon as possible.

John C. Carras,
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Another war of values in a different guise

From Mr Frederick Pinter.

Sir, In his excellent article Philip Stephens raised the real issue at stake in the war in Kosovo. Underlying the opposing forces are indeed two different value systems, those of the multi-cultural democratic west and those of the dictatorship of Slobodan Milosevic.

Every war is a war of values, a fight for the truth against lies. Under the guise of a battle for territory the war in Bosnia was also a battle between two opposing views of civil life. This war taught us there are ideals that reach beyond those of the "territorial sovereignty" of states, namely those of human rights. A state should exist only to protect and defend the rights of its own citizens, so when it murders them en masse it forfeits its legitimacy and must stop such actions.

The questions facing us today are not those of state sovereignty or boundaries but whether we can provide protection for all citizens of peace-loving countries regardless of race, religion or ethnicity. The political evolution that has occurred within the countries of the European Union demonstrates how our understanding of the "sovereign state" has radically transformed itself.

It is also a measure of how much the world has changed recently that Germany has taken a clear stance in defence of western values in Kosovo whereas Israel's position is ambiguous at best. Yet these values should be those of all civilised countries, developed or not, rich or poor.

States can no longer use the defence of "territorial sovereignty" as an excuse for the wholesale murder and rape of innocent people anywhere in the world. It is time so-called intellectuals realised that we must struggle to share our ideals of justice and protection from persecution with all. These values have no meaning if we reserve them for those of us lucky enough to be living in democratic countries.

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Jilted once again

France is discovering the hard way that politically driven alliances cut little ice in the world of international business, say **Robert Graham** and **David Owen**

Adultery and treason are heavy charges. But these accusations are flying around Paris, directed against Deutsche Telekom over its sudden espousal of an alliance with Telecom Italia, in spite of its existing strategic partnership with France Telecom.

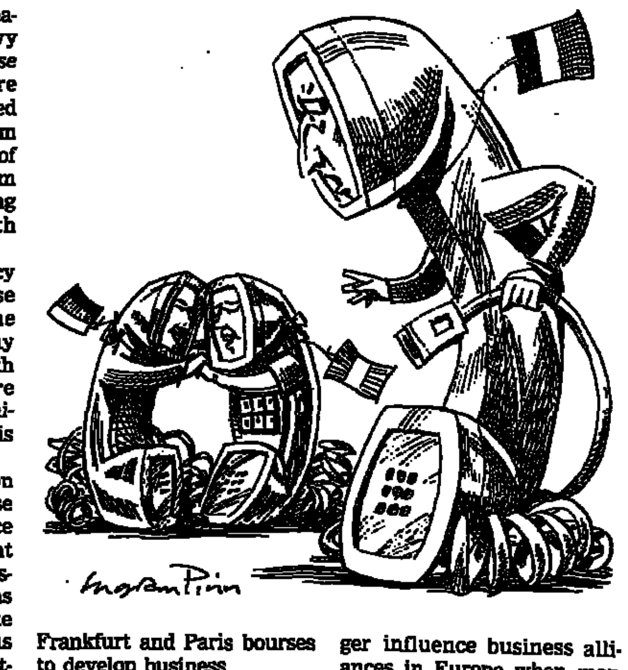
At the official level an icy silence prevails. A terse statement released by the French company on Monday said: "Our agreements with Deutsche Telekom are clearly defined and any unilateral change in strategy is incompatible."

This pointed observation scarcely conceals the sense of betrayal felt by France Telecom and government officials over the opportunistic way the German telecoms group, state-controlled like its French counterpart, has embraced the idea of creating a European telecoms giant. Newspaper headlines have been more candid. One in Libération read: "Adultery in the phone business". "Dramatic betrayal" read another.

With the proposed Italo-German venture still in doubt, French officials are reacting with caution. One senior official observed: "It has come about in a curious way to fend off an Olivetti bid and there are many hurdles to be overcome. Yet even if it fails, it will be hard to rebuild the strategic alliance with France Telecom."

This is the second recent occasion in which a German group has been willing to sacrifice a politically important link-up with a French company for a better opportunity elsewhere. Dasa, the German aerospace company, broke off tripartite negotiations with France's Aerospatiale and British Aerospace to form a European defence and aerospace group in favour of a more interesting alliance with BAe. That this deal eventually foundered because BAe in turn spurned Dasa for an all-British group, did not diminish the French sense of rejection.

Paris was also sidelined when London and Frankfurt decided last year to launch a joint platform for trading European stocks. The move came in spite of strong commitments between the Frankfurt and Paris bourses to develop business.



The immediate blow this week is therefore probably more to French *amour propre* than France Telecom's long-term development. Under Michel Bon, chairman, the French group is widely perceived as a well-run company that has made a good fist of the transition from state-owned monopoly to a partly privately held entity fighting for market share in a fast-moving global telecoms market.

The tie-up with Deutsche Telekom was not that popular to begin with, although it was cemented last year with a cross-shareholding deal that gave each company a 2 per cent stake in the other. A full-scale merger was never considered, although the two companies spoke of generating revenues of more than €10bn (£6.6bn) in 2003 from their joint ventures.

The biggest of these is Global One, an alliance between France Telecom, Deutsche Telekom and Sprint of the US, which provides services to multinationals. Analysts, however, doubt whether it can be developed into a profitable and strategically significant company. France Telecom, for its part, insists it can develop its international business without a merger.

More importantly, the Deutsche Telekom-Telecom Italia move is further proof that politicians can no longer influence business alliances in Europe when market forces dictate consolidation in sectors exposed to international competition. This trend is being digested much more slowly in Paris than elsewhere in Europe – even though the French business establishment has moved significantly away from traditional *dirigisme*.

The original idea for a tie-up between France Telecom and Deutsche Telecom was eminently political and defensive. Conceived by the previous rightwing Juppé administration at the end of 1996, it helped cement the Paris-Bonn axis by locking their countries' two fully state-owned telecoms groups into a defensive alliance against the impending liberalisation of telecommunications in the EU.

When the Jospin government took over in mid-1997 and proceeded (against its election pledge) with the partial sell-off of France Telecom, this link-up was still seen in the broader context of France and Germany controlling the political and economic destiny of Europe.

Yet the fact that the German partner could have been so easily and quickly seduced away suggests the lack of a hard-nosed assessment of where the two groups were going together. Certainly neither the previous nor the present French government had envisaged a merger. The Socialist-led Jospin administration, like its Conservative predecessor, believes in building up national champions. In the current climate of deregulation within Europe, this means France is encouraging the construction of French-controlled groups which would be better positioned in the event of cross-border alliances.

Nothwithstanding its successful partial privatisation, France Telecom has been one of the flagships of this policy. Two others key sectors – banking and aerospace/defence – have experienced this 'Franco-French' approach. The government and opposition parties remain profoundly hostile to financial institutions falling into foreign hands. Thus the three-way takeover battle between Banque Nationale de Paris, Paribas and Société Générale is being conducted on the understanding the government will block any foreign white knight.

In aerospace, a large national champion is being built round the state-controlled Aerospatiale in conjunction with the privately owned Lagadère group. This choice itself was conditioned by an earlier decision to protect Thomson-CSF, the state- controlled defence electronics group, by allying it with Alcatel, the telecoms equipment specialist. In these cases the Franco-French approach has been placed above the question of shareholder value.

However, shareholder value is coming increasingly to the fore in France as the government proceeds with a surprisingly broad policy of privatisation. The virtual absence of local pension funds has enabled foreign investors, notably UK and US funds, to build up sizeable stakes in the capital of French companies. This is shifting the weight towards shareholder value and forcing big companies to be more transparent.

The Deutsche Telekom affair has finally exposed the fault-lines in the national champion approach. It has brought home the need for French business, especially where the state still seeks to have an important say, to be more assertive.

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Wednesday April 21 1999

The world economy turns

Financial markets have calmed; Asia is showing signs of improvement; and the US economy continues to speed away. The International Monetary Fund, in its latest assessment of the world economy, believes that despite Latin America's troubles, these positive developments are the beginnings of a global economic revival. But the road to recovery may not be a smooth one.

The IMF forecasts that world output growth this year will be much the same as last year, at 2.3 per cent. But as the recovery gathers speed, next year's growth should reach 3.4 per cent, equal to the 1980s average.

What could interrupt this process? The IMF identifies two risks. The first is further problems in the emerging markets. Confidence has been returning, but there are still plenty of troublespots which could send investors running scared. The Chinese economy is slowing, and fears of a devaluation have not gone away; Brazil remains vulnerable; and Russia continues its plunge into economic chaos.

The second risk stems from the external imbalances that are building up in the world's three major economic blocs – the European Union, Japan, and the US. Growth in the three has been very uneven, partly reflecting the varying boldness of their policymakers, partly their stage in the economic cycle. The consequence is that the US has played a dominant role in keeping the world economy moving.

Growth in US domestic demand, fuelled partly by a drop in private savings, accounted for almost half the total growth in world demand and output last year. The US absorbed most of the trade shock from the Asian crisis; this year, it is expected to do the same for Latin America. The result: a current account deficit which the IMF expects to reach $310bn (3½ per cent of gross domestic product) this year, accompanied by virtually unprecedented levels of net private-sector dissaving. Meanwhile, the euro-zone and Japan are running large current account surpluses. This, as the IMF hints, is not sustainable.

The question is how, and when, these imbalances will be resolved. The IMF believes that adjustment will be gradual. But experience shows that the such corrections have often been much more rapid, and painful. A knock to equity prices, perhaps combined with a falling dollar, would resolve the imbalances – but at great cost to global stability and US economic growth.

To limit the damage of such a rapid correction, two things would be critical. One is the response of US monetary and fiscal policy. The other is the ability of the EU to take over as the motor of global demand. The message is that in today's unbalanced world economy, policymakers must be prepared to react quickly to protect global growth.

Wrong number

The merger being discussed by Deutsche Telekom and Telecom Italia is shaping up as a monster of a deal in more than just the financial sense. Far from creating a global giant, it risks perpetuating industrial dinosaurs, at the expense of the evolution of Europe's telecommunications market. If a deal is agreed, EU competition authorities must be on guard against that danger.

No persuasive industrial rationale has yet been advanced for the plan. It appears to be motivated more by opportunism and defensiveness by two former monopolies struggling uncomfortably to adjust to fast-changing markets. Telecom Italia, which is trying to fend off a hostile bid by Olivetti, seems driven by near-desperation.

That is a poor basis for any merger. All the more so in this case, because the challenge of integrating different corporate cultures will be piled on top of existing pressures to restructure the companies' operations. The tradition of myopic nationalism and government intervention in Europe's telecoms industry will make those tasks no easier.

But even if a merger failed to energise the two companies' performance, it could make it easier for them to stifle competition. European industrial champion strategies still beguile many EU politicians, particularly when large numbers of jobs are involved. The larger the champion, the more seductive the argument that it is too big to fail – and the stronger the temptation to bend the rules in its favour.

The risk is particularly great in this instance, because the restraints on misguided meddling are so fragile. Effective regulation is essential to open telecoms markets and prevent monopoly abuses. But in Italy and Germany, regulators are still struggling against the political odds to establish their authority. That makes tough EU scrutiny of a merger all the more essential.

It should aim not just to stop unhealthy domination of markets, but actively to free them. As a minimum, a merged group should be required to account separately for – and, if necessary, divest – individual businesses. It should also be compelled to allow competitors unimpeded interconnection with its networks.

Deutsche Telekom and Telecom Italia need to prove that a merger would contribute to a more vigorous market, and not perpetuate obsolete corporate structures and practices. By challenging them to do so, Brussels could also boost the broader cause of reform in Europe, where the emphasis is still too much on making former monopolies less inefficient, rather than on maximising competition and opportunities for market entry.

Open skies

After yesterday's scheduled meeting between John Prescott, UK deputy prime minister, and Rodney Slater, US transportation secretary, officials from the two countries should finally be able to get down to negotiating a new aviation agreement. Both sides want a new accord by the end of the year before the US gets down to serious electoral campaigning.

It has been a long haul, but the outlines of a new agreement – which will replace the restrictive Bermuda II accord – are becoming clearer. There will be no immediate move to open skies: instead the two governments are likely to agree a phased opening of London's Heathrow airport to all US airlines.

The opening of Heathrow is a large concession, because it is something the UK can only do once. The local carriers based there – British Airways, British Midland and Virgin Atlantic – will face far more competition than they do today. Consumers will benefit, but shareholders and employees of the airlines are entitled to ask: what does the US offer in return?

The UK has made two demands: that the US opens its domestic aviation market to outsiders and that it abandons its "Fly America" policy, which requires American civil servants to travel on US carriers.

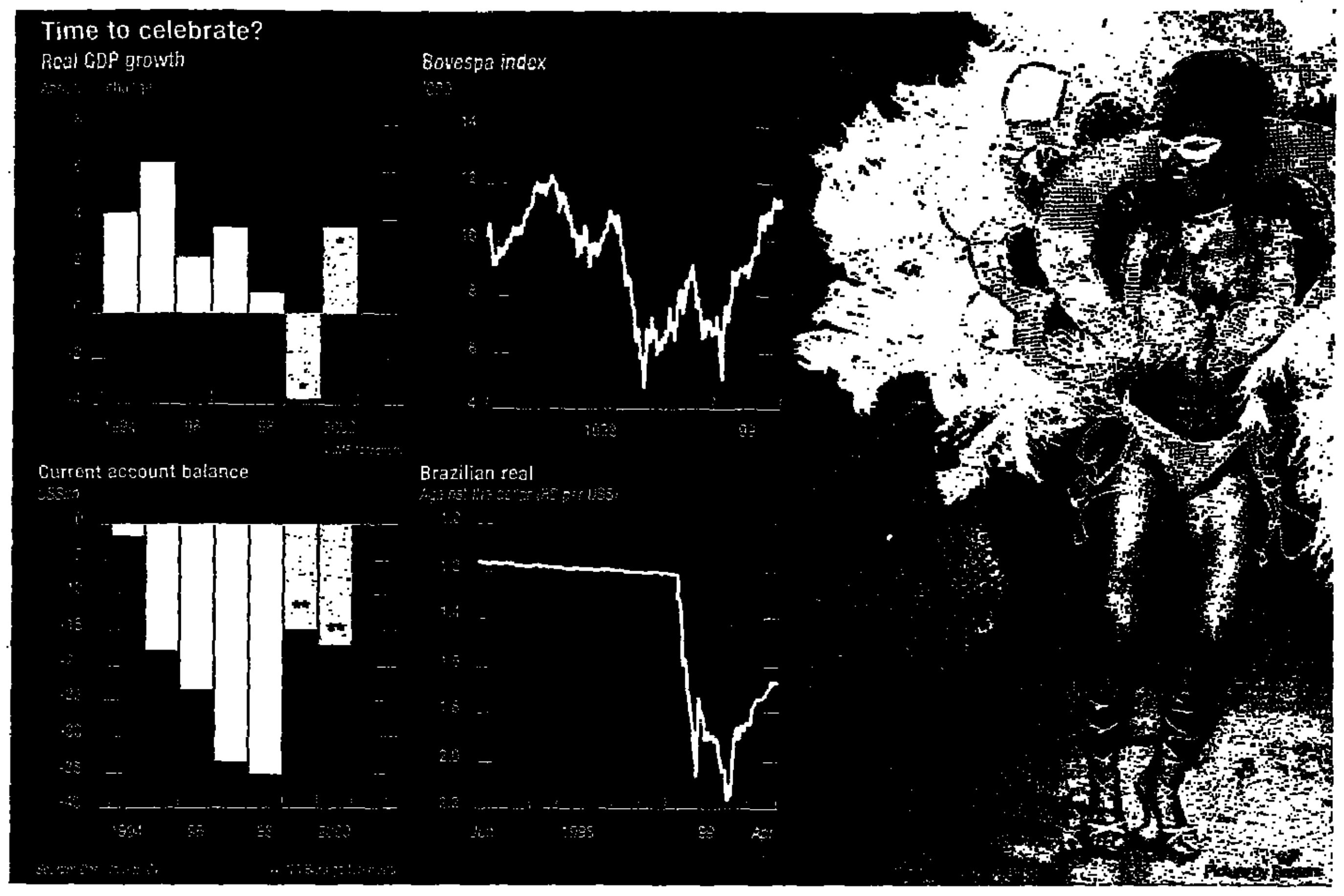
The US defence department argues that Fly America is needed for national security reasons, as it means Washington can requisition US-owned aircraft during times of emergency. But this argument is weakened because foreign alliance partners of US carriers are permitted to carry US public officials too. Defending the prohibition on foreign carriers operating domestic services, US officials and executives offer the limp excuse that the unions insist on it.

More plausibly, they say lifting both restrictions will require contentious legislation that cannot be enacted by the end of the year. Also, opening the US domestic market will mean lifting the 25 per cent cap on foreign ownership of US airlines. This is best negotiated between the US and the EU, or on a worldwide basis, as other countries' foreign ownership limits will need to be lifted too.

All this is true, but the proposed new US-UK agreement offers a solution. The move towards open skies is likely to be phased in over three to five years. The UK should stipulate that the final opening of its market will occur only when the US has ended its own air protectionism. This would give Washington plenty of time to ensure the necessary legislation is enacted. And by ensuring the full liberalisation of the US market, the UK will have done airline passengers everywhere a favour.

Real test still to come

Brazil has found its feet since the currency crisis. Now it must stick to planned reforms, says Geoff Dyer



If everything goes to plan, Brazil will raise at least $1bn (£600m) in the international bond markets on Friday, just three months after the country was plunged into a currency crisis in January. The bond issue will be the most striking proof yet of the rapid recovery in the fortunes of Latin America's largest economy.

The turnaround in the currency market has been dramatic. In early March, when the Real was trading at R$2.20 to the dollar, a devaluation of 45 per cent, many Brazilians were near despair at the prospect that a weakening currency would soon beget high inflation.

Just over a month later the Real is at around R$1.70, following an inflow of short-term funds, and some economists are even suggesting that the currency is now too strong and should be encouraged to depreciate a touch to give more of a boost to the country's exports.

It is astonishing to remember just how close to meltdown Brazil came. For several weeks from late January to early March, the economy was walking a narrow tightrope. President Fernando Henrique Cardoso admitted last weekend that he thought his anti-inflationary reform plan might be dead on January 29, when a small run on the banks began. The turnaround in confidence came just in time.

Brazil's rehabilitation has been remarkably rapid. Mexico was shut out of the international bond markets for six months following its currency crisis in December 1994. South Korea had to wait nearly five months before launching a bond issue after it threatened to default on its foreign loans in December 1997. Indonesia and Malaysia have still not returned to the bond market.

The rapidity of Brazil's rebound has been based on several factors: First, it has benefited from the relative strength and solidity of its banking sector. During the Asian crisis, devaluation whiplashed the real economy in many countries because of banking collapses. In Mexico, failing banks exacerbated the surge in inflation.

With hindsight, Brazil was lucky to experience a banking crisis in 1995-96 during a period of relative market calm. The government took that opportunity to force shotgun marriages on several struggling large banks, while encouraging the entry of foreign banks. Although two small banks faced problems during the crisis, the system as a whole has not been threatened.

Second, unlike in Asia, there was no real estate boom in the run-up to the crisis in Brazil, nor a corporate borrowing binge. Bank loans are equivalent to just over 20 per cent of gross domestic product in Brazil, compared to around 80 per cent in many of the Asian tiger economies. Reared in an environment of constant boom-bust cycles, most Brazilian companies learnt long ago the virtues of a conservative balance sheet.

The value of this corporate conservatism was highlighted by Mr Cardoso on a visit to London yesterday. "Our financial system was in good shape. No one important went into bankruptcy because of the crisis. No Brazilian debt was not paid. Brazilian businessmen made a considerable effort to pay," he said.

Third, the predictability of the devaluation helped restrain its impact. The crisis did not begin with the January 13 devaluation but with the Russian default the previous August. It was then that investors began to steadily withdraw funds from the country – reserves fell by $40bn between August and January. When the devaluation came, investors did not need to rush for the door.

Finally – and perhaps most important – has been Brazil's achievement in keeping inflation consistently lower than expectations. At the worst point in the crisis, a few investment banks forecasted consumer price inflation as high as 70 per cent for 1999. The economists who compile the Fipe index of consumer prices, one of the most closely watched measures of inflation in Brazil, are now predicting an increase of just 9 per cent, a figure endorsed by the president yesterday.

Control of inflation has come at a price. High interest rates have been used to squeeze demand and prevent companies from raising prices. As a result, Brazil has tipped into recession, although not as severe as seemed likely two months ago. Mr Cardoso seems confident that the fall in GDP this year will be less than the 4 per cent indicated to the International Monetary Fund.

Whatever the domestic costs, financial markets have reacted euphorically to Brazil's achievement so far. In February, high inflation or a domestic debt restructuring were considered genuine possibilities. As those fears receded, the Real stabilised and domestic shares rose sharply. However a small correction in share prices this week after a scandal over a bank closure shows how fragile that sentiment might turn out to be.

Moreover, the avoidance of a financial meltdown does not mean all the economy's underlying problems have been solved. Lower interest rates are essential if the debt burden, now representing 50 per cent of GDP, is to be sustained in the medium-term. This in turn requires long-term solutions to the country's deficits on its budget and current account.

In theory, the devaluation will ease pressure on the current account by boosting exports. And re-entry to international bond markets will make it easier to finance the deficit. However, the trade balance has yet to show the sort of improvement that will create a stable balance of payments outlook. The government has forced through a series of tax increases and spending cuts in order to meet the target agreed with the IMF of a primary budget surplus (before interest payments) of 3.1 per cent of GDP.

This, however, will require strict control of spending throughout the year in the face of the political pressures caused by recession. Moreover some observers see the fiscal measures as only a stop-gap solution. "They are a crash diet for a compulsive eater," says Winston Fritsch, head of Dresdner Kleinwort Benson in Brazil and a former senior official at the finance ministry. "But we still need the fundamental, long-term cure."

The government has made a series of structural reform proposals to attack this problem, ranging from shaking up the arcane tax system to reforming political parties to introducing new cuts to pensions. A law to introduce fines for public officials who spend beyond their budgets has been sent to Congress.

With his popularity falling because of recession, Mr Cardoso is taking a back-seat, content to watch Congress launch two high-profile investigations into government corruption. But it may only be with such reforms that Brazil will lay the groundwork for stable, long-term growth.

Emerging from the dark

Emerging markets are back in favour with western investors. In the last few days, Brazil, Chile, Colombia, Mexico and Korea have taken advantage of the sharp improvement in investor sentiment to tap the international bond markets. Malaysia and Bulgaria are planning to follow suit.

This would have been impossible three months ago because investors were still smarting from Russia's debt default last August. The default prompted investors to move money out of emerging market bonds into safer western government bonds and highly rated corporate debt, depriving emerging market governments of access to private sector capital. The price of emerging market debt plummeted, pushing up yields to record levels compared with US Treasury bonds.

But in the past few weeks, yields have tumbled as investors have rushed back into emerging market bonds. They have been attracted by signs of renewed economic growth in Asia, and Brazil's success in stabilising its currency. Fears that other Latin American economies would be affected by Brazil's troubles have also receded.

This has encouraged investors to resume their search for better yields in the bond markets. "This is the credit cycle at work," said Giles Keating, chief economist at CSFB. "Equity and bond markets in the US and Europe are overvalued while emerging markets are clearly undervalued, so investors are moving back again."

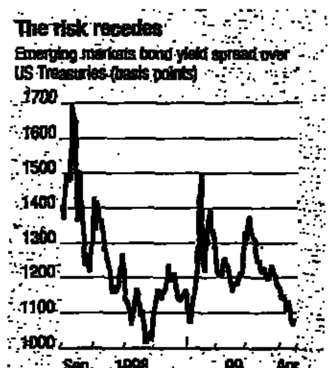
So far this year Latin American borrowers have issued more than $13bn (£8bn) in bonds. If the current level of issuance continues, overall volumes could even approach the record $56bn raised in 1997. Demand has been so great that many new Latin American issues could have been sold more than twice over. Demand for bonds from Asia, which has much lower funding requirements than Latin America, is even stronger.

Much of the new demand has come from US insurance and pension funds which typically invest between one and 10 per cent of their international portfolios in high-yielding bonds. Over the last four to six weeks they have been steady buyers of emerging market – and particular Latin American – bonds.

But in contrast, the hedge funds that were previously big buyers of emerging market bonds to make short-term trading profits have not yet rushed back in. After last year's heavy losses, the hedge funds have no "discernible presence", says Ingrid Iversen, emerging market fund manager at Rothschild Asset Management in London. "Russia flushed them out."

"The difference between the best and worst credits [like Russia and Ecuador] is still quite wide," says Ms Iversen. "This is a sign that we are not in a silly market."

However, Fabien Pictet, head of a London-based hedge fund, says it is only a matter of time before investors put more money into emerging markets. "Conditions are improving and valuations look cheap," said Mr Pictet. "We can't see anything upsetting this trend except perhaps a sharp rise in US interest rates."



Edward Luce and Richard Lapper

OBSERVER

The Kaiser's growing fury

Franco Tato, or "Kaiser Franz" as the hard-boiled chief executive of Italy's state electricity utility Enel is known, isn't amused by Deutsche Telekom's plans to merge with Telecom Italia.

He feels he's been stabbed in the back by the German company, which only days ago was one of Enel's partners in a telecommunications start-up called Wind. After all, Wind's big idea is to go after Telecom Italia on its home turf.

So when Italy's stock market watchdog made Telecom Italia reveal it was talking with Deutsche, Tato gave marching orders to the 30 Deutsche Telekom employees working for Wind. He's even begun legal proceedings against his former German partner. And France Telecom, which like Deutsche has a 24.5 per cent stake in Wind, isn't best pleased either.

The no nonsense Tato has even more steam coming out of his ears due to the latest rumour doing the rounds in Rome.

Informed tongues are saying that if the Telecom Italia takeover saga does claim the head of Franco Bernabe, the telecom company's chief, Bernabe could still claim a consolation prize. And what would that be? Perhaps the top job at Enel, currently occupied by a certain character with a German nick-name?

Presidential pardon

The campaign for the European Parliament elections in June has thrown up an intriguing example of Brussels' top dog enjoying privileges denied to lesser mortals.

Jacques Santer, acting European Commission president after the EU executive committed political suicide last month, is staying at his post and doesn't plan to leave until July. That's despite being drafted to stand for the right of centre Christian Social party in his native Luxembourg.

Quite a contrast to the case of Colette Flesch, director- general of the commission's translation service and informatics division. Flesch, a former Luxembourg foreign minister, is taking unpaid leave to fight the election as a candidate for the Luxembourg Democratic party.

Santer's aides say he's entitled to stay put, since he won't be campaigning actively for his parliamentary seat. But his decision seems even odder now that Romano Prodi, his designated successor, has decided that standing for parliament would be incompatible with his future role.

Banking blues

Last year's US banking "mega-mergers" have had at least one big effect. For years, the US banking industry has deluged Wall Street with earnings figures on the third Tuesday of each quarter.

Analysts and financial hacks dreaded the quarterly arrival of an indigestible pile of financial data from almost every bank in the country. A few days later, people would finally begin to spot the nasty little surprises hidden in the accounts.

This week, Citigroup and BankAmerica, now the two largest banks in the land, chose to bring forward their results by a day, creating a Manic Monday instead of a Super Tuesday.

Analysts might complain about the timing, but at least, thanks to the merger frenzy of the last few years, they only have to crunch their way through two reports, when once they had to pore through nine.

Wordy

It's good to hear that Venezuelan president Hugo Chávez is turning to his pen rather than his sword. Or is it?

First the former coup leader sent a letter to the Supreme Court demanding special presidential powers – and nearly triggered a constitutional crisis.

Now it's emerged that Chávez has corresponded of late with Carlos the Jackal, convicted terrorist and the most notorious Venezuelan around.

Carlos, a former house-guest of the governments of Libya and East Germany – and not the sort of person one would expect a democratic western nation to cuddle up to – is currently resident in a French jail.

But that didn't stop Chávez from signing off: "with deep faith in the cause and the mission, for now and for ever, Hugo Chávez Frías." The letter, he's since explained, was purely a humanitarian gesture. Who'll be the next object of his sympathy? Observer dreads to think.

Off colour

Personalities aren't the only things clashing in the messy three-way takeover battle between Société Générale, Paribas and Banque Nationale de Paris. Even the colour of a banker's suit and tie has become an object of contention.

Observer hears that anyone from allies SG or Paribas who shows up wearing green – the signature colour of BNP, which is making a hostile bid for them both – is immediately accused of going over to the enemy.

But it's still okay to consider the woes of other banks, such as Barclays, presently without a permanent chief executive after Michael O'Neill's change of heart.

"It's a pity that Great Britain can't wait a bit longer," says one SG executive. "There'll be several chairmen available here before long."

The Financial Times

100 years ago

London 'bus drivers

London 'bus drivers showed yesterday that they were not unmindful of the fact that "their friends the Rothschilds" were closely interested in the auspicious ceremony which took place in Westminster Abbey. Lady Peggy Primrose, or the Countess of Crewe as we must now call her, received congratulations from all sorts and conditions of men, but the display of white wedding favours on the 'bus whips, and even on the 'buses themselves, was a very graceful celebration of the happy occasion.

50 years ago

Call for Unity in Europe

Europe must "think and plan and toil," declared Mr Winston Churchill yesterday when he opened the plenary session in London of the Economic Conference of the European Movement.

"If Europeans are not to be paupers or slaves the peoples of Europe will have to sink or swim together.

"We have full faith that the time has come when they decide to swim," he added.

FINANCIAL TIMES
WEDNESDAY APRIL 21 1999

THE LEX COLUMN

Pulling the switch

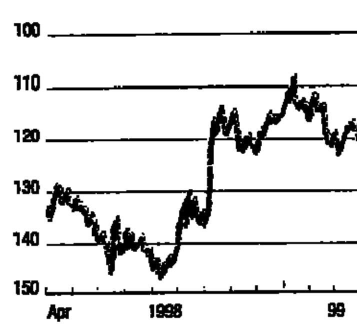
Rotation has been sending markets into a spin. Already this year, investors have switched out of 1998's favourite region, Europe and into Japan and emerging markets. Now they are shifting from growth stocks into cyclicals, causing a fair degree of volatility on the way; the technology-heavy Nasdaq index in the US has dropped more than 10 per cent in a week. European investors, always nervous about Wall Street, led the sell-off yesterday.

The global bull market has survived so many shocks in the past few years that it is premature to write its obituary now, even though equity valuations look stretched, particularly in the US. What is needed to drive a stake through the bull's heart is either a sustained rise in inflationary pressures or a downturn in the US economy. Neither appears imminent.

But a correction of, say, 15 per cent in global markets would represent an interesting test of investors' nerves. Will the new-found enthusiasm for emerging markets stand the strain? And how closely are the bull market and US economic growth really bound together? The technology sector appears to be the main focus of interest for speculative retail investors; a severe fall might become self-feeding. Leveraged investors would be forced to liquidate positions while disillusioned momentum players would scramble for the exit. And the resulting loss of confidence might cause a slump in consumer spending.

Yen

Against the dollar (¥ per $)



Source: Datastream/ICV

US banks

US banks have had a cracking first quarter. Most are reporting double digit earnings growth, often well ahead of estimates, and being rewarded with big jumps in their share prices. Citigroup, whose stock has risen 45 per cent this year, has been the star performer. But the bank sector as a whole has gained 13 per cent in 1999, twice the increase of the broad S&P 500 index.

Investors should be careful, however. These bumper profits are the result of buoyant capital markets and thus ultimately unsustainable. Revenue growth in traditional lending is running at 5 per cent at best, given the flat yield curve and the industry's lack of pricing power. There are also growing concerns over deteriorating credit quality. The only way, therefore, for banks to continue to generate expected earnings growth of 8-10 per cent is to cut costs.

Logically, this argues for further mergers. The trouble is that many of the obvious deals have taken place. More pertinently, several of last year's mega-mergers have failed to produce the promised cost savings and revenue gains. BankAmerica/Nationsbank, for example, has just reported flat revenues. Indeed, the only big bank stock to beat the market since last April's merger flurry has been Chase Manhattan, which has so far eschewed a deal in the latest round. That leaves managements in a quandary: pursuing a merger may make long-term strategic sense, but damage their stock price in the short term.

Airlines

There is a touch of "having one's cake and eating it" about the market's treatment of cyclical stocks. Oil companies have jumped as benchmark Brent crude flirts with $16 a barrel. But there has also been a sharp renaissance in airline stocks this month. British Airways and KLM have led the charge in Europe; American Airlines in the US.

This looks counter-intuitive. Fuel accounts for between 8 and 10 per cent of an airline's operating costs. The recent slump in the fuel price cushioned airlines' profits in 1998. Lufthansa for instance, reckons that first half 1998 fuel costs were around Dm110m lower – equivalent to roughly 10 per cent of pre-tax profits. Some airlines chose to pass the windfall on to customers. They may now find it tricky to push fares up again to offset higher fuel costs. Of course, most airlines' fuel needs are heavily hedged – at 80-90 per cent of volumes and up to 12 months ahead. So higher oil prices will probably not show up that sharply until next year.

But the real pain will come if higher oil prices combine with continued sharp pressure on passenger yields. In Europe this could be a killer, with airlines facing both increasing capacity on precious transatlantic routes and still-sluggish home markets.

Some carriers, like BA, are cutting back. But others may simply freeload on its restraint. For the European airlines at least, this could be a torrid summer.

Yen

The yen has been edging towards the top of its recent trading range, prompting some modest cries of alarm from Tokyo. It has suddenly become in everybody's interest to keep the yen as stable as possible. If it is too strong, Japanese exporters start to struggle and the prospects for a Japanese economic recovery are diminished, with knock-on effects for the rest of Asia. It also becomes harder to persuade Japanese investors to finance the US trade deficit. If it is too weak, the US will mutter about unfair trade practices; fears of a Chinese competitive devaluation will return; and Japanese banks will find their capital ratios slipping.

The problem is that foreign investors *have been piling into the Tokyo equity* market in the hope that Japan has finally turned the corner, while Japanese institutions have been reducing their holdings of overseas bonds. Throw in the effect of the fast-growing US trade deficit on the dollar, and of the Kosovo crisis on the euro, and the yen is slowly and steadily being pushed higher.

Talking aside, Japan's policy responses are restricted. Interest rates are already almost zero; fiscal reflationary packages have come and gone with limited effect; and the authorities have shied away from the radical policy of printing money. Intervention, which, despite its poor reputation among free market enthusiasts, has been strikingly successful on recent occasions, may be the best bet.

IMF urges euro-zone not to rule out further rate cuts

Fund warns economy may stay weak despite recent reduction

By Robert Chote
Economics Editor

The International Monetary Fund yesterday urged the European Central Bank not to rule out further cuts in interest rates, arguing that the euro-zone economy could remain weak despite the unexpectedly big reduction in rates two weeks ago.

The Fund's warning will be welcomed by the US Treasury and European governments, ahead of Monday's meeting of finance ministers and central bank governors from the Group of Seven leading industrial economies.

The Fund believes that with a slowdown in the US economy likely and desirable, a strong performance in the euro-zone is vital to keep the world economy on track.

In its latest World Economic Outlook, the Fund reiterated its December forecast that the global economy would expand by 2.3 per cent this year, down slightly on last year and barely half the rate recorded in 1997. The Fund has revised its growth forecast up for the US and down for Europe and Latin America.

The expansion in world output is then expected to rebound to 3.4 per cent next year. "The balance of risks remains on the downside, however, and several hurdles could prevent global growth from returning to potential within two or three years," the Fund warned.

The US economy is expected to grow by 3.3 per cent this year, slowing to 2.2 per cent next year. But the US could yet suffer a "hard landing" if the stock market falls sharply and international investors tire of financing the widening current account deficit, which is expected to reach $310bn (€286.7bn) this year.

Wall Street is "very handsomely priced at present", said Michael Mussa, the IMF's chief economist. He warned that normal valuations could imply a fall in share prices of 20 per cent or more, but that this was "by no means a sure bet". The Federal Reserve should thus keep an open mind about interest rates.

"If growth moderates by more than is projected, monetary conditions may need to be eased further, though not so much as to pre-empt the slowdown; the goal should be to help ensure a soft landing," the outlook said.

"If growth does not moderate sufficiently, the Fed may well need to tighten monetary policy initially."

Growth in the euro-zone is forecast at 2 per cent this year, rising to 2.9 per cent in 2000. The Fund said that there was an urgent need for structural reforms to reduce unemployment, which the ECB would need to couple with an expansionary monetary policy.

The Fund warned that the contrast between the current account deficit in the US and the big surpluses in Europe and Japan "may give rise to destabilising movements in exchange rates and may also increase protectionist pressures".

US slowdown inevitable, Page 6
Warning on sterling, Page 10
Editorial Comment, Page 19

US trade deficit hits record as demand for imports rises

By Mark Suzman in Washington

The US monthly trade deficit hit a record of $19.4bn in February, fuelled by an unexpected surge in imports as consumer demand for foreign goods soared.

According to the Commerce Department, the figure was 15.6 per cent higher than the $16.8bn recorded in January, raising the prospect that the annual deficit will significantly exceed $200bn. Imports rose 2.3 per cent to $96bn as Americans bought record quantities of foreign cars, toys and clothing, while exports fell 0.6 per cent to $76.6bn, largely because of a drop in civilian aircraft sales.

The total exceeded market expectations of a deficit in the $16.5bn-$17bn range and forced economists to scale back expectations for first-quarter US economic growth. However, markets reacted calmly, with some analysts suggesting the growing trade gap reduced prospects for any interest rate increases by the Federal Reserve. Most of the increase was due to higher imports from Canada, Mexico and Europe. Although the politically sensitive trade deficit with China narrowed slightly from $4.9bn in January to $4.6bn. US exports for the two months were down 24 per cent over the same period last year. The gap with Japan rose from $4.7bn in January to $5.3bn.

William Daley, commerce secretary, sought to play down the size of the deficit, pointing out that it was due largely to the strength of the US economy at a time of broader economic weakness overseas. He also said that as a percentage of US GDP the deficit was still lower than those in the mid-1980s.

However, Mr Daley said he remained "troubled" by Chinese trade practices.

"If China wants to be a true global trading partner and a member of the World Trade Organisation, the Chinese government must promptly agree to open her markets to foreign goods and services," he said.

Earlier this month, President Bill Clinton was heavily criticised by US business leaders after he rejected a new offer by China to join the WTO.

Mr Daley said he expected European demand for US goods to rise as a result of recent interest rate cuts and that he was encouraged by signs that the global financial crisis may have "bottomed out".

Economists predict that next month's trade figures will also be bad because of the recent rise in oil prices but that the situation will then start to improve.

Ian Shepherdson, chief US economist at High Frequency Economics, said: "It's unlikely that consumer demand will continue to grow quite so strongly."

Although US exports to Latin America outside Mexico fell 11 per cent in the first two months of the year, exports to South Korea have soared by 32 per cent over the same period, suggesting a strong recovery in the region.

CONTENTS

Korean Confederation of Trade Unions members lie down in central Seoul chanting anti-government slogans. A general strike is threatened for May 12 unless progress is made in stopping job cuts. Page 6 Reuters

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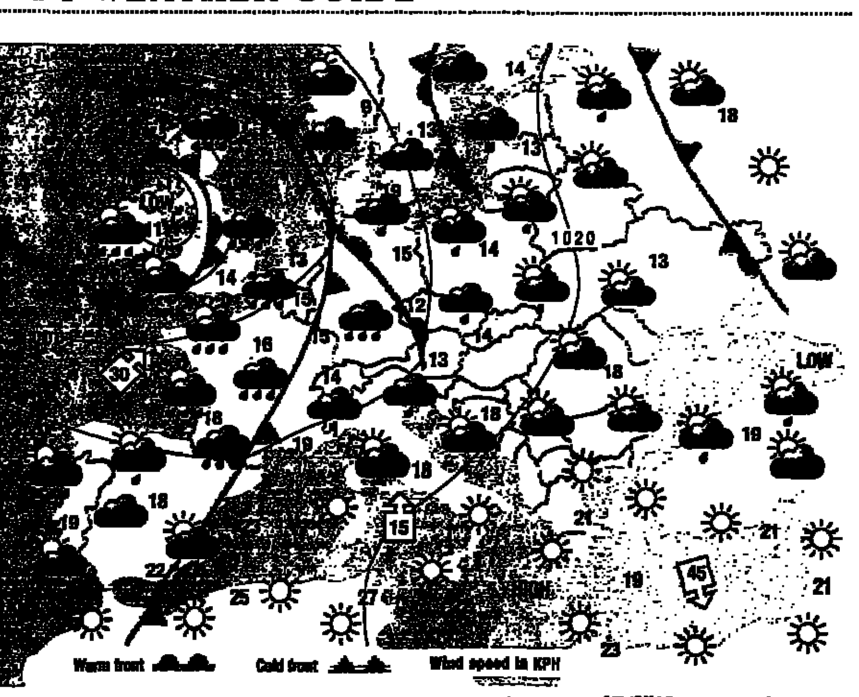
FT WEATHER GUIDE

Europe today

The central and eastern Mediterranean will be fine with sunny periods. Most of Spain and Portugal will have heavy showers and longer periods of rain, although there will be sunny spells in the south and west. Atlantic fronts will bring rain to much of France, the Alpine states, the Low Countries and Germany; In northern and western France the rain will be replaced by sunshine and showers. South-west Scandinavia will have rain spreading from the west but farther north and east there will be sunshine and localised showers.

Five-day forecast

Northern Spain will have further showery rain tomorrow but pressure will build from Friday, bringing warm sunshine to much of Spain and Portugal. Central and north-west Europe will stay changeable with sunny spells and showers but Atlantic fronts will bring more prolonged wet conditions.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	34
Accra	Fair	32
Algiers	Fair	25
Amsterdam	Shower	13
Athens	Sun	21
Atlanta	Shower	28
B. Aires	Fair	20
B.ham	Shower	12
Bangkok	Shower	38
Barcelona	Fair	21
Beijing	cloud	23
Belfast	Rain	11
Belgrade	Fair	19
Berlin	Shower	12
Bermuda	Shower	24
Bogota	Shower	20
Bombay	Sun	33
Brussels	Rain	15
Budapest	Cloudy	14
C.hagen	cloud	9
Cairo	Sun	25
Caracas	Fair	28
Cardiff	Shower	11
Casablanca	Fair	21
Chicago	Fair	14
Cologne	Rain	16
Dakar	Fair	26
Dallas	Thunder	28
Delhi	Sun	36
Dubai	Sun	33
Dublin	Rain	12
Dubrovnik	Sun	16
Edinburgh	Rain	9
Faro	Cloudy	20
Frankfurt	Rain	15
Geneva	Rain	14
Gibraltar	Fair	22
Glasgow	Rain	11
Hamburg	Shower	11
Helsinki	Shower	14
Hong Kong	Fair	26
Honolulu	Sun	29
Istanbul	Sun	16
Jakarta	Fair	32
Jersey	Shower	12
Johannesburg	Fair	24
Karachi	Sun	34
Kuwait	Sun	35
L. Angeles	Sun	22
Las Palmas	Fair	23
Lima	Fair	25
Lisbon	Fair	19
London	Shower	14
Lux.bourg	Shower	14
Lyon	Rain	16
Madeira	Fair	21
Madrid	Cloudy	18
Majorca	Fair	22
Malta	Sun	22
Manchester	Rain	12
Manila	Fair	32
Melbourne	Fair	17
Mexico City	Fair	30
Miami	Sun	26
Milan	Shower	15
Montreal	Fair	15
Moscow	Fair	18
Munich	Rain	15
Nairobi	Fair	27
Naples	Fair	21
Nassau	Shower	28
New York	Fair	17
Nice	Shower	19
Nicosia	Fair	27
Oslo	Fair	9
Paris	Shower	16
Perth	Fair	30
Prague	Rain	11
Rangoon	Fair	35
Reykjavik	Fair	7
Rio	Thunder	23
Rome	Fair	18
S. Frsco	Fair	18
Seoul	Fair	26
Singapore	Thunder	31
Stockholm	cloud	13
Strasbourg	Rain	16
Sydney	Shower	17
Tangier	Cloudy	21
Tel Aviv	Sun	24
Tokyo	Fair	23
Toronto	Fair	15
Vancouver	Fair	11
Venice	Shower	15
Vienna	Shower	13
Warsaw	Shower	10
Washington	Fair	19
Wellington	Shower	16
Winnipeg	Fair	10
Zurich	Rain	13

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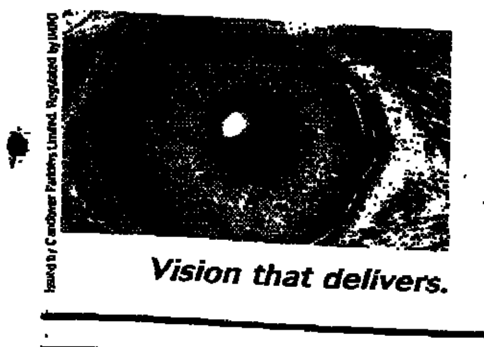

FINANCIAL TIMES

COMPANIES & MARKETS

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INSIDE

Fininvest charts two-year expansion
Claudio Sposito, a former Morgan Stanley banker who took over six months ago as Fininvest chief executive, says the Italian group has a two-year window to reduce its dependence on its domestic market as it seeks to become a pan-European rival to groups such as Time Warner, Disney and Viacom. Page 23

Turkish market recovers its nerve

Knocked back by the meteoric rise in Sunday's general election of the far-right Nationalist Action (MHP) party, the Turkish stock market recovered its nerve, with the IMKB-100 index closing 10 per cent higher yesterday. Markets had hoped the poll would yield a coalition of Bülent Ecevit, caretaker prime minister (above), and the pro-business Motherland party of Mesut Yilmaz, former premier. Page 44

Free internet service at a high price
Freeserve, the UK's first mass-market subscription-free internet access service on offer from high-street retailer Dixons, has attracted 1.3m users. But valuations of £2bn-£4bn ($3.2bn-$6.4bn) being offered by analysts raise serious questions about all internet stocks. Page 29

Pressure builds for CFTC rule change
Pressure is mounting on the Commodity Futures Trading Commission, the US industry regulator, to allow US customers access to electronic trading systems run by non-US derivatives exchanges. Exchanges such as Liffe were furious at proposals drafted in March. Page 32

Softbank poised for online dash
Softbank, the Japanese internet group, plans to be quickly through the virtual gate when Japan deregulates trading commissions in October. It is constructing an intricate online financial services network to educate investors. Page 26

Harare pins hopes on tobacco sales
Tobacco, Zimbabwe's biggest export, is a casualty of the world economic slowdown and anti-smoking legislation. But government and business are hoping Harare's tobacco auctions will help stave off another currency slump. Page 34

US airlines fly into high pressure
America's largest airlines are seeing robust domestic growth but competitive pressure on transatlantic revenues, according to first-quarter results released by four carriers. Page 28

Bakrie and Astra present debt plans
Bakrie & Brothers and Astra International, two of Indonesia's largest diversified conglomerates saddled with large borrowings, have presented proposals to their creditor banks to restructure their outstanding foreign debt. Page 26

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MARKET STATISTICS

UK PHARMACEUTICALS GROUP SAYS PROFITS STILL ON TRACK FOR 13% ADVANCE IN 1999 DESPITE PROBLEM WITH IDOXIFENE

SmithKline Beecham ends development of bone drug

By David Pilling, Pharmaceuticals Correspondent

SmithKline Beecham, the UK drugs company, is ditching a potentially important product for the crippling bone condition osteoporosis.

Jan Leschly, SB's chief executive, delivering first-quarter earnings at the top end of expectations yesterday, said the company was abandoning development of idoxifene as a treatment for brittle bones because of worrying side-effects. However, after consultation with the US Food and Drug Administration, it would continue to test the product for breast cancer.

SB had been damping expectations about idoxifene for months, but some analysts had maintained peak sales forecasts of up to £700m.

"Yes, we would have liked idoxifene for osteoporosis," said Mr Leschly. "But that's what happens to all of us," he added, referring to the tricky process of drug development. He also said the company would not pursue Famvir as a treatment for hepatitis B, though analysts regarded this as less of a blow.

Mr Leschly said neither setback would prevent SB from achieving its goal of a 13 per cent advance in profits in 1999 and at least 15 per cent next year. In the first quarter, underlying pre-tax profits rose 13 per cent to £510m ($821m) against £440m a year earlier on sales up 10 per cent to £2.1bn (£1.9bn). Analyst forecasts had ranged from £487m to £510m. "SB has turned the corner and is on a very nice trend," Mr Leschly said.

Both the positive results and negative news on idoxifene will be overshadowed by tomorrow's FDA advisory committee hearing on Avandia, the diabetes drug that could have a huge impact on SB's medium-term future. Avandia, one of three drugs in a new class called glitazones, could rack up sales well above £1bn if it receives a clean bill of health from the FDA. Rezulin, a glitazone marketed by Warner Lambert in the US, has been blamed for a number of deaths from liver damage and was voluntarily withdrawn from Europe by Glaxo Wellcome.

SB is confident Avandia does not carry these risks. The scale of the drug's success will depend largely on the precise labelling agreed with the FDA, however. Eli Lilly of the US has a third glitazone, Actos, which also comes up for review this week.

Mr Leschly did not rule out signing a co-marketing agreement for Avandia, which should be launched in June or July, but he said SB's US sales staff of more than 3,000 was sufficient. The launch was fully budgeted and would not dent second-half profits, he forecast.

US drug earnings challenge dip in shares, Page 28

Turning the corner: SmithKline Beecham's Jan Leschly Ashley Ashwood

UK telecoms group to raise bid for IDC

By Michiyo Nakamoto in Tokyo and Alan Cane in London

Cable and Wireless, the UK telecoms company locked in a battle for control of the Japanese international operator IDC, will today increase its offer in an attempt to outbid NTT, Japan's dominant domestic operator.

It is also talking to European Union competition authorities to seek "assistance and support" in its bid for control of the Japanese company which it co-founded and in which it has a 17.7 per cent stake. C&W has been frustrated in its attempt to take control of IDC after the Japanese company's board last week rejected its offer in favour of one by NTT.

Today it will start discussions with IDC's 12 other largest shareholders, which include Toyota and the trading company Itochu, over an improved offer for IDC which it believes is "substantially better" than NTT's.

Details of the offer were still being put together, but it is understood it will be all-cash, topping the initial Y62.4bn ($528.8m) C&W offered for IDC. NTT's offer of cash and shares – in a complicated deal requiring legal changes – is believed to value the company at about Y63bn.

The IDC board favoured NTT's offer on the grounds that NTT was more likely to ensure long-term employment for all staff. C&W, however, has also pledged to re-employ all IDC staff.

The unusual contested bid for a Japanese company has threatened to turn into a trade dispute with the UK government expressing serious concerns about the outcome. C&W executives are understood to have approached EU competition officials to establish what action C&W or the EU might be able to take under international agreements on the liberalisation of telecoms markets.

Before IDC announced its decision, Stephen Byers, the UK trade and industry secretary, wrote to Seiko Noda, Japan's minister of posts and telecommunications, noting that a victory by NTT would raise regulatory and competition issues. The Japanese ministry says it considers the issue a matter for the companies and intends to maintain a neutral stance.

Last week, the IDC board recommended the NTT offer in spite of complications involved in fulfilling the partial share swap NTT is proposing to avoid breaching an agreement between the founding shareholders – of which C&W is one – which entitles them to match any outside offer.

NTT's offer of a share swap relies on changes to Japan's commercial code, which is not expected to come into effect until October at the earliest.

Law firms negotiate transatlantic merger

By Richard Rivlin and John Mason in London and William Lewis in New York

Clifford Chance, the UK-based law firm with global ambitions, and Roger & Wells, a medium-sized New York firm, are in advanced merger talks.

The two firms have been conducting due diligence and are trying to reach agreement on financial terms.

They are also attempting to resolve outstanding questions over the structure of any merged firm.

If the deals goes ahead, the new grouping would be the largest ever transatlantic law firm merger, and could trigger a spate of other attempted mergers between US and UK firms anxious to expand into each other's markets.

The management committees of both firms could vote on a merger proposal within two months. The deal would then need to be approved by the partners of the firms.

Since the talks started several months ago, many lawyers have been sceptical about the prospect of success. People close to the discussions were yesterday warning that the talks could still fall apart. "We have to get over several hurdles yet. We are inching along to a deal though," one person said.

Rumours about the talks between Clifford Chance and Rogers & Wells have been circulating in London and New York for some months.

The deal is part of Clifford Chance's ambitions to become a global law firm, and the firm is also thought to be showing interest in acquisitions elsewhere in the world, notably in Australia.

A merger between the two firms would create the world's second largest law firm, judged by turnover, after the firm Skadden Arps, Slate, Meagher & Flom, of New York. Clifford Chance, the world's third largest law firm, would jump ahead of Baker & Mackenzie, the US-based international firm.

With 271 partners, Clifford Chance is substantially larger than Rogers & Wells, which has 88 partners. Average profitability per partner at Clifford Chance last year was £478,000 against £403,000 at Rogers & Wells and the strength of the UK firm's brand is likely to mean it would retain the key positions in any merged firm.

Both Clifford Chance and Rogers & Wells yesterday declined to comment.

The planned merger would give Clifford Chance access to large-scale domestic legal work in the US and enable it to develop closer relations with Wall St investment banks.

Toronto exchange in talks as chief quits

By Edward Alden in Toronto

The board of governors of the Toronto Stock Exchange was yesterday meeting to discuss its direction following the sudden resignation of TSE president Rowland Fleming.

Mr Fleming stepped down late on Monday to "pursue other interests", said Barbara Stymiest, TSE chairwoman.

She said the decision to leave was made by Mr Fleming, but it is believed he left as a result of a conflict with the stock exchange's board.

During Mr Fleming's 4½-year tenure as president, the TSE was embarrassed by Bre-X Minerals, a junior gold company that rose to C$7bn ($4.6bn) in market value before collapsing after revelations of fraud, and by YBM Magnex International, a magnet maker that reached a C$900m market capitalisation before disappearing amid charges of money laundering.

The head of one of the TSE's member brokerages said: "I'm not sure he's had the support of the board for quite a period of time."

But several exchange members said they were surprised by the timing of the action, which comes in the middle of an effort by the Canadian stock exchanges to restructure in a bid to stem the loss of trading liquidity and discourage Canadian companies from listing in the US.

However, the head of equity trading at a member brokerage said that with the TSE set to elect a new chair of the board of governors at its annual meeting in June, Mr Fleming might have felt it was time to allow someone else to carry out further reforms.

Canada's four stock exchanges last month agreed a realignment that will see the Alberta and Vancouver exchanges combine into a single exchange for junior companies, while the Montreal exchange will become Canada's only derivatives exchange. The TSE will become the sole senior equities exchange.

Mr Fleming also wanted to increase liquidity in the TSE by discouraging "upstairs trading," in which institutional dealers cross blocks of stock internally rather than by the open auction process. That ran counter to the interests of some of the TSE's largest members, but was backed by the board of governors.

BARRY RILEY

A tricky balancing act

It is good for stockbrokers, but the stock market rotation from growth stocks to cyclicals may not be so beneficial for fund managers as they struggle to ride out the turbulence. The markets have been responding to their own internal pressures rather than to economic fundamentals.

The momentum game in growth stocks had reached the end of the road. But the underlying liquidity story remains positive, so the response has been an attempted sectoral shift rather than an absolute market setback – at least until yesterday when the transition appeared to become disrupted.

Recently the rotation has been quite dramatic – in the UK, the mining sector index has beaten the pharmaceuticals index by 60 per cent so far this year. In the US, the forest products sector has outperformed computers by 35 per cent.

Aptly enough, the best sector in this churning market, according to the Dow Jones industry classifications, has been securities brokers.

There is, at least, plenty of money around. The latest bulletin from CrossBorder Capital, the London consultancy that tracks liquidity in the financial markets worldwide, shows a further expansion in G3 liquidity in March to what is described as a "loose" index reading of 59.5. That compares with 47.8 in January. The US Federal Reserve has been less accommodative in recent weeks, but Europe and Japan have eased.

However, although investors have been charging into cyclicals, the reality of a global economic recovery is more elusive – except in this year's oil price rally from $10 to $16 a barrel.

True, commodity-heavy Australia's stock market has ticked up by 17 per cent this year in terms of US dollars. But so far all this represents the triumph of "top-down" over "bottom-up" thinking.

Fund managers know that if there is to be a switch from growth to value it will happen quickly. It will also be selective.

So far the thinking appears to be that natural resources producers will benefit strongly from an acceleration of the global economy but that manufacturers may not; and indeed that they may even be squeezed because of their lack of pricing power.

Inconsistencies are apparent. In the UK, value-seekers have turned to the second-liners with the result that the FTSE 250 and SmallCap indices are almost 20 per cent higher this year. But in the US, the Russell 2000 index is below its January 1 level.

A lot is at stake. The enormous valuation differences are apparent in the mismatches between the Fortune 500 league table for US corporations, based on sales, and the market capitalisation-based rankings (as published by the Financial Times, for example).

True, at first glance there are similarities. General Electric, the second largest US corporation by market value at the end of December, came fifth in Fortune's list. IBM was ranked seventh by the market and sixth by Fortune.

But these are just coincidences. Microsoft, overwhelmingly the market favourite, appears only on the third page of Fortune's list, at position 109. In contrast, the Fortune winner General Motors, a long-time destroyer of shareholder value, can struggle in only 53rd in the market value rankings. Similarly, Coca-Cola is eighth on sales but 73rd in terms of value.

There has been a vast global over-investment in relatively simple industries with transferable technologies, such as cars and textiles. It would take a tremendous surge in global growth to make them relatively valuable again. The real value resides in businesses protected by some sort of franchise.

But there has to be a limit, and this spring we may have reached it.

On Monday, the US high-technology stocks boiled over. That could be seen almost as reassuring, showing that Wall Street is not a bubble out of control.

But stock markets need another theme, and a convincing one, or they will lose balance.

NEWS DIGEST

AUSTRIA

Erste dividend signals no gain in banking margins

Erste Bank, Austria's second biggest bank, yesterday left its dividend unchanged amid mounting evidence that the recent consolidation in Austrian banking has not prompted improvement in Austrian banking margins. Erste Bank, which merged with Girocredit in 1997, said its final results were identical to preliminaries and the shares ended €0.30 higher at €48.40. It increased its net profit after minority interests by a third in 1998. However, much of the improvement reflected lower bad debt charges and the group's cost/income ration fell only marginally to 73.3 which is well above the group's target of between 65 per cent and 67 per cent by the year 2,000. One of the main problems is that Erste's retail banking margins of 1.4 per cent are less than half those of UK banks and there is no sign of any recovery despite the merger of its biggest competitor, Bank Austria, with Creditanstalt.
William Hall, Zurich

SANITARY TECHNOLOGY

Geberit plans June IPO

Geberit, a Swiss sanitary technology company, yesterday said it had increased earnings before interest, tax and depreciation by 25 per cent to SFr204.6m ($136m) in 1998 on an 8 per cent increase in sales to SFr1bn. The group, which was acquired by Doughty Hanson, the UK leverage buy-out company two years ago, confirmed yesterday that it would launch an initial public offering in June. Credit Suisse First Boston has been appointed global co-ordinator and financial adviser. Geberit, which began making lead-lined wooden toilet cisterns in 1905, is the only pan-European supplier of sanitary technology which accounts for around 45 per cent of the €22bn western European sanitary ware market.
Over the last decade Geberit sales have grown at a compound annual rate of 9.7 per cent and its earnings before interest, tax and depreciation have grown by 12.6 per cent a year. **William Hall**

BANKING

Rabobank, Robeco in merger

Netherlands-based Rabobank and the Robeco asset management group in which Rabobank has a 50 per cent stake are to merge their private banking and trust activities with a view to strengthening services for wealthy individuals in Europe and Asia. The merged entity, named Rabo Robeco Bank, hopes to double the Fl 19bn (€8.62bn, $9.15bn) under management within five years. Rabo Robeco Bank will become a subsidiary of Rabobank Nederland, employing 450 people in 13 countries. Thomas van Rijckevorsel of Rabobank, the new group's managing director, said the merger would enable it to offer a wider range of products to clients. **Frances Williams, Geneva**

Engaged to be married but doubts arise

Alan Cane and **Ralph Atkins** look for synergies in the Deutsche Telekom merger plan

As the board of Telecom Italia were locked in talks yesterday on merging with Deutsche Telekom, outsiders were increasingly questioning the industrial logic of the deal. Telecom Italia would benefit immediately through being relieved of the burden of fighting off the $65bn hostile bid from Olivetti, its much smaller Italian competitor. Further down the line, however, it is difficult to see what synergies could be achieved.

Ron Sommer, Deutsche Telekom's combative chairman, nevertheless bridles at suggestions that his acquisition strategy is opportunistic. "We have projects in mind," he said. "We know what we want but the circumstances have to be right, and we cannot always guarantee that acquisitions will be made in the order we would like."

The deal, which values Telecom Italia's voting shares at €12.72, would create the world's biggest telecoms operator with a market capitalisation of about $180bn in a planned "merger of equals".

Mr Sommer's determination to accelerate the German group's international expansion has been obvious for some time. Since the start of 1998, when the German market was fully liberalised, the operator has been losing a spectacular amount of market share to new, more agile competitors. As much as 30 per cent of the long-distance market has gone to new rivals.

The development of innovative products and services and rapid expansion abroad represents Deutsche Telekom's best hope of restoring healthy turnover and profits growth.

So far, however, its most ambitious international moves have been taken in conjunction with France Telecom with which it had a growing relationship including agreements to work together on advanced technologies.

In addition to Global One, an alliance with France Telecom and Sprint of the US aimed at providing services to multinational customers, there is the newly opened fixed wire service, Wind, in Italy, MetroHoldings in the UK and Multilink, another fixed wire operator in Switzerland.

Analysts are puzzled that the German company appears to be prepared to abandon these ventures for the alliance with Telecom Italia.

Karel van Miert, the European competition commissioner, is unlikely to countenance a three-way alliance.

Telecom Italia has so far failed to form international alliances, most notably in an ill-considered venture last year with Cable and Wireless of the UK.

It is easier to point to reasons why the venture should not work than to its strategic advantages, but there are some questions to be answered. First there is the issue of leadership. Both Ron Sommer and Enrico Bernabe, Telecom Italia chairman, are determined and independent individuals. Will they be able to work together?

Second, does the marriage of two partners with problems at home make for success abroad?

Deutsche Telekom has some assets in the Asia-Pacific region and Telecom Italia has strength in South America, but it hardly amounts to operational synergies.

Deutsche Telekom and France Telecom were jointly building a modern European network based on internet technology which would have enabled the two groups to have cut costs significantly. Will this now be abandoned?

The new group will be big, but size alone counts for little in international telecoms. Ownership of global assets allowing lowest cost transport of traffic is much more important.

NTT of Japan was for years the world's largest operator by market capitalisation but it was restricted to its domestic market. Only now have the rules been relaxed enough to allow it to seek a broader international role.

There are suggestions that Deutsche Telekom is interested in acquiring the mobile network One-2-One in the UK and possibly Sprint in the US. The merged company could provide the core of such a global colossus.

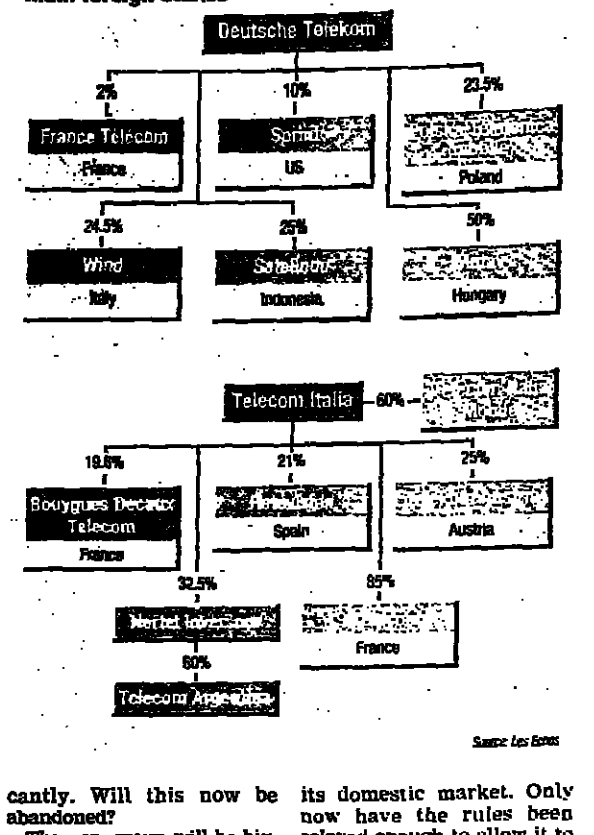
Deal could face EU inquiry

Karel van Miert, European Competition Commissioner, said yesterday that Deutsche Telekom and Telecom Italia would probably face an in-depth EU regulatory probe if they merged, Reuters reports from Brussels.

Mr Van Miert stressed that he was concerned about the effect on competition of any merger between the two former telecoms monopolies, particularly since the German group is already allied with France Telecom. The German and French giants have 2 per cent cross-shareholdings in each other and are partners in the Global One telecoms joint venture with Sprint Corp of the US.

Mr Van Miert also singled out the situation in Austria where Deutsche Telekom and Telecom Italia are active, and the Wind joint venture in Italy between Deutsche Telekom and France Telecom. "Competitors will be very interested. It is likely there will be complaints ... so I would be very surprised if there were no objections," Mr Van Miert said.

Main foreign stakes



Gucci director to meet LVMH chief

By Alice Rawsthorn

Tom Ford, creative director of Gucci, the Italian fashion company, has agreed to meet Bernard Arnault, chairman of LVMH, the French luxury goods group locked in a bitter bid battle with Gucci.

Mr Arnault, who has already spent $1.4bn acquiring 19.6 per cent of Gucci and offered to pay $85 a share in a bid valuing the entire company at $8.7bn, is extremely anxious to persuade Mr Ford to stay on if his offer succeeds.

The two men will meet in London tomorrow, the same day a court case brought by LVMH against Gucci is due to start in Amsterdam.

Since becoming Gucci creative director in 1994, Mr Ford, 37, has redefined every aspect of its visual identity. He is credited with orchestrating its metamorphosis from a loss-making Eurotrash brand into one of the hottest luxury labels of the 1990s.

When Mr Arnault began building a minority stake in Gucci this year, both Mr Ford and Domenico De Sole, president, offered to stay if LVMH mounted a 100 per cent bid.

Mr Arnault refused. His relationship with Gucci's board has since deteriorated as it has manoeuvred successfully to elicit a full bid from LVMH culminating in the issue of a 40 per cent stake in Gucci to Pinault-Printemps-Redoute, a rival French group, for $2.9bn.

Mr De Sole has repeatedly said he will quit if LVMH takes control. Mr Ford has remained mute about his plans, but declined to reply to an invitation in early spring to meet Mr Arnault. He has now accepted a second invitation from LVMH.

To persuade Mr Ford to stay, Mr Arnault will almost certainly have to offer him a generous financial package. Mr Ford would be entitled to a "golden parachute" of roughly $20m if he left Gucci upon a change of control.

He also has unexercised options over 2m Gucci shares, worth $170m on LVMH's $85 bid. The average strike price of the options is around $45, leaving Mr Ford with an estimated profit of $80m.

Arnault raises Yquem stake

By David Owen in Paris

LVMH, the French luxury goods group chaired by Bernard Arnault, yesterday said it had secured 64 per cent of Château d'Yquem, arguably the best white wine in the world.

The announcement appears to end a protracted battle for control of the prized Sauternes that erupted in late 1996 and turned into a bitter battle between Mr Arnault, personifying the forces of big capitalism, and supporters of family-owned national treasures.

It also provides LVMH with the perfect fillip in the run-up to a critical court case, starting tomorrow, that could determine the outcome of another high-profile battle – the one for Gucci, the Italian fashion group. This has pitched Mr Arnault against François Pinault, an equally aggressive and well-known figure who is probably France's richest man.

Yesterday's deal is understood to value the winemaker at about FFr1bn.

LVMH said it had concluded an agreement with the de Lur-Saluces family giving LVMH 64 per cent of Château d'Yquem. Through the acquisition, Château d'Yquem would become a limited company with Count Alexandre de Lur-Saluces as president of the administrative council.

Count Alexandre de Lur-Saluces, previously opposed to a deal, said he and Mr Arnault were in "complete agreement" on future plans for Yquem.

Last December, a court in Bordeaux confirmed LVMH's ownership of 37.5 per cent of the winemaker. The group's other wine and champagne brands include Moët & Chandon, Dom Perignon and Krug.

Famed for making only one glass of wine from each vine because of its painstaking methods, Yquem produces some 80,000 bottles a year. It has a heritage dating back more than 400 years. The domain encompasses over 450 acres.

SILICON METALS NORWEGIAN GROUP IS REVIEWING ITS OPTIONS

Elkem plans to expand outside its core areas

By Valeria Sköld in Oslo

Elkem, the world's largest producer of silicon metals, is planning to expand outside its core businesses.

The Norwegian company recently shed nearly a quarter of its future revenues through the NKr2bn ($257m) sale of its manganese operations in January to Eramet of France. With the cash deal due to be completed this quarter, Ole Enger, Elkem chief executive, has already started outlining his plans.

In an interview with the Financial Times, Mr Enger said Elkem was about to hire a large investment bank to help it spend the proceeds outside its existing core businesses, preferably in non-cyclical areas.

"The discussions we are having are about what our competence really is and in which industry we can really add value to the eventual new business," he said.

The company is keeping its cards close to its chest. But it is open in the long term to both one investment related to its core businesses or several investments further away from its current specialities, Mr Enger said.

It is considering new investments in the process industry and businesses related to microsilica and carbon materials, its highest growth business.

The company is also considering an expansion of its Sauda power plant in Norway and a joint venture project to build a NKr4.9bn gas-fired power plant in Skogn, Norway, known as Industrikraft Midt-Norge.

Analysts are concerned that the company will siphon all its new-found cash from the Eramet deal towards the Skogn power plant or its NKr2.36bn in net interest-bearing debt.

Mr Enger said Elkem was considering paying down part of its liabilities as one of two short-term alternatives, which includes possibly buying back up to 10 per cent of its shares for NKr600m.

The company does not foresee proposing an extraordinary dividend, nor allocating all of money from the Eramet deal towards the Skogn power plant or to immediately payment all of its net debt.

So far, Elkem has only definitely decided to invest part of the NKr2bn from the Eramet sale in bonds, with the help of an external fund manager. The long-term investment decision will not come for at least six months.

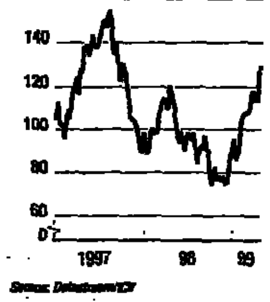
Lower prices hit group's results

Elkem, the Norwegian metals producer, yesterday reported a 24 per cent fall in first quarter profit from NKr202m to NKr153m ($19.6m) on relatively unchanged sales of NKr2.6bn due to lower prices in its manganese and chrome, ferro-silicon and materials businesses, writes Valeria Sköld in Oslo. The company is suffering market price lows for most of its main products at the same level as the last recession in 1992, it said. As a result, pre-tax profits fell 22 per cent from NKr285m to NKr222m, while operating profit declined from NKr311m to NKr253m.

However, the drop was countered by improvements in its aluminium business from better operations, higher sales and lower raw materials costs. Its improvement in other activities gained from changes in internal pricing of captive power production.

Elkem's fall in profit was less than expected, and its shares to close NKr3 higher at NKr129.

Elkem
Share price (NKr)



CME faces loss of Czech licence

By Robert Anderson in Prague

Central European Media Enterprises (CME), the troubled Nasdaq-listed television group, is in danger of losing the licence for the most profitable of its eight TV stations in eastern Europe.

Vladimir Zelezny, general director and licence holder of Nova TV, CME's dominant Czech station, has threatened to deny CME permission to use his licence after it sacked him on Monday for exceeding his authority and harming Nova's interests.

Mr Zelezny, who controversially uses his own TV show to attack critics, said: "I hope we don't have to take these extreme steps but we are prepared to build a new station, this time without American partners."

The news prompted Moody's, the rating agency, to lower its rating of CME's senior notes due 2004 from B3 to Caa1.

The dispute could also affect the $615m sale of CME to SBS, the Nasdaq-quoted TV and radio company, announced last month. The enlarged SBS would be the biggest TV company in Europe by audience, with 18 TV stations and 12 radio stations in 12 countries.

Harry Sloan, SBS chairman, yesterday backed CME but said he was not optimistic about a quick resolution.

"We're hopeful that the Nova frequency will still be available but if not we believe we can operate the station on a different frequency," he said.

"We have until the end of the year to close the merger and CME has the time to sort this out."

Mr Zelezny had been in negotiations with CME for several months to redefine the relationship between his licence company, CET 21, and the station's operating company, CNTS, owned by CME.

In what CME sees as a preliminary move to starting up on his own after five years of co-operation, Mr Zelezny transferred the rights to buy and sell programmes from CNTS to AQS, a company of unknown ownership.

He also issued an unconditional guarantee from CNTS to AQS and told international film and TV studios to contact it instead.

CME says that when it discovered this it sacked Mr Zelezny as head of CNTS and yesterday refused him entry to Nova's headquarters.

CME is also threatening legal action because it says Mr Zelezny is under contract to respect existing business relationships and not set himself up in competition.

Nova made a gross profit of $55m last year. CME, controlled by Ronald Lauder, one of the heirs to the Estée Lauder cosmetics fortune, reported a loss of $125m after problems with its Polish and Hungarian ventures.

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SG, Paribas step up BNP bid fight

By Clay Harris, Banking Correspondent in Paris

Société Générale and Paribas, the French banks hoping to conclude a friendly merger, yesterday stepped up their war of words against the hostile bids for both of them from Banque Nationale de Paris.

The development came ahead of a key ruling, expected tomorrow, on the timing of the competing offers.

Daniel Bouton and André Lévy-Lang, chairmen respectively of SG and Paribas, denied reports that they had expressed an interest to Claude Bébéar, chairman of the Axa insurance group, in a possible retail banking link with BNP before its hostile bids were announced on March 9. Axa is an important shareholder in BNP and Paribas. Mr Bébéar, who sits on all three boards, supported the SG Paribas deal before shifting sides after BNP made its move.

Recounting their contacts with Mr Bébéar and Michel Pébereau, BNP chairman, in late February down to the time and place of each meeting, Mr Lévy-Lang and Mr Bouton said it was Axa which had raised the possibility of a link with BNP in meetings on February 10 and 23. They rejected the idea on February 27 in a telephone call from a car on the way to London's Heathrow Airport.

They have shunned any further contact with BNP since it launched its bids. Christian de Labriffe, of Rothschilds, the bank's financial adviser, said any such talks would give "a misleading signal" since there was "no room for discussion".

The growing bitterness between the two sides was demonstrated yesterday when Jean-Jacques Ogier, SG head of retail banking, predicted a "completely unmanageable situation" if BNP won. He said: "How can you expect people to work together after they have fought against each other for months?"

The battle is likely to drag on for some time, with a conclusion unlikely before July. The Conseil de Marchés Financiers, the financial markets regulator, may bring some clarify tomorrow with a ruling on the provisional calendars for the competing bids.

Mr Lévy-Lang said the "least bad" option was to close the competing bids for Paribas first and simultaneously, and then have BNP and SG shareholders decide what to do once, and if, that outcome was clear.

The CMF, however, may give only provisional guidance tomorrow and its rulings are in any case subject to appeal. SG and Paribas have already appealed against its allowing the BNP bid to proceed, in a case due to be heard on June 1.

SG and Paribas yesterday continued to stress their two main arguments against the BNP solution: that a three-way banking merger was unprecedented and too complex, and that the overlaps between BNP's and SG's French retail networks would result in lower revenues without compensating cuts in costs.

Mr Bouton estimated that French retail revenues would fall by €230m ($244m) a year, up to 5 per cent of the current combined total. On the subject of cost reductions without domestic job cuts, Mr Ogier said: "Either BNP is lying to the shareholders or they're lying to the staff. Either way, we are going into a messy situation."

SHIPBUILDING DISPOSALS WOULD INCLUDE PHILADELPHIA UNIT

Kvaerner 'obliged' to sell US shipyard

By Valeria Sköld in Oslo

Kvaerner, the loss-making Anglo-Norwegian industrial engineering group, revealed yesterday that it was under an obligation to dispose of its Philadelphia shipyard in a package with its shipyards in Finland and Germany.

Kvaerner, which announced last week a complete withdrawal from its core shipbuilding business along with a massive restructuring plan, said it would need to dispose of the former US naval shipyard together with Kvaerner Masa-Yards in Finland and Warnow Werft in Germany, to honour obligations to US authorities under a $430m revitalisation area project.

Kjell Almskog, new Kvaerner chief executive, pledged last week to dispose of all of its 13 yards within one year as part of a strategy to reduce debts by NKr7bn ($899m) and to achieve NKr1bn in pre-tax profits by the year 2000.

As part of its commitment to the US, Kvaerner had agreed to continuing transfer of its shipbuilding expertise after any sale. Marit Ytreeide, a Kvaerner spokeswoman, said the company could not sell its US shipyard on its own. "A break-up [of the yards] would be a deal-breaker," she said.

This narrows the number of possible buyers for its shipyards, since a package of the four shipyards represents more than NKr7bn out of its NKr12bn in shipbuilding revenues.

There are only a handful of possible buyers that could purchase Kvaerner Masa-Yards, Warnow and Philadelphia together.

Aker Yards, a shipbuilding unit of the Norwegian industrial holding company Aker RGI, is now regarded as a likely candidate, ahead of Fincantieri of Italy and the French yard Chantiers de l'Atlantique, analysts said.

Otto Solberg, chief executive of Aker Yards, declined to comment on a deal that would double it in size to create a shipbuilding group with more than NKr13bn in revenues and 9,000 employees. However, both Kvaerner and Aker RGI chief executives admitted recently to holding talks on a possible combination within shipbuilding.

Aker is considering selling its stake in Scancem, a Swedish cement company, and Aker Maritime, its Norwegian oil service unit, and could raise enough cash to buy Kvaerner's German and Finnish yards together with the Philadelphia yard.

Apart from looking for buyers for its shipyards, Kvaerner has two other exit options, including forming a joint venture or spinning off its yards to shareholders.

INTERVIEW CLAUDIO SPOSITO, HEAD OF THE ITALIAN GROUP, OUTLINES PLANS FOR ITS TRANSFORMATION

Fininvest to focus on European media sector

By Paul Betts in Milan

Fininvest, the holding company of Silvio Berlusconi, the former Italian prime minister, is planning to transform itself into a pan-European media and entertainment conglomerate to rival large US media and entertainment groups such as Time Warner, Disney and Viacom.

Claudio Sposito, a former Morgan Stanley banker who took over six months ago as Fininvest chief executive, said the Italian group had a two-year window to develop a strong European presence to reduce its heavy dependence on its domestic market.

He said Italy still accounted for about 90 per cent of Fininvest's extensive operations ranging from its Mediaset commercial television activities to the Mondadori publishing house, the Medusa film production and the AC Milan football club.

"Our group cannot grow any more in Italy," Mr Sposito said. "Our next step is to expand in Europe where there is room for one or two media and entertainment majors. We want to be one of them. But we have to move quickly before the big US majors step in," he said.

A significant first step in this strategy, endorsed by Marina Berlusconi, the daughter of the former premier and deputy chairman of Fininvest, was achieved last month with Mediaset's alliance with Germany's Kirch group to form a new European commercial television network.

With commercial television operations in Germany, Italy and Spain, the partners now intend to attract French and UK partners to the new venture.

Mr Sposito said the group at this stage was focusing on commercial television although it maintained a foothold in the pay-TV market with its 10 per cent stake in Telepiu, the Italian pay-TV network controlled by France's Canal Plus.

Pay-TV still constituted a financial risk. It was significantly cash negative while commercial television throughout Europe was cash positive.

At this stage, Fininvest was more interested in expanding in so-called "new media" such as the internet which, like pay-TV, were also cash negative but on a much lower scale than pay-TV.

Mr Sposito believed there was a "real" convergence between these new media and traditional media.

The company is planning to spend $100m-$150m over the next few years to become a leader in Europe.

"I feel we are late, but Europe is late. If we move quickly we can catch up," said Mr Sposito.

Fininvest is also encouraging its Mondadori group, Italy's leading publisher, to expand in Europe.

It is also moving on the domestic market to reinforce its film production and distribution business by developing a series of large multiplex cinema centres in competition to US companies.

Mr Sposito said that the group planned to invest L400bn-L450bn (€207m-€232m, $220m-$246m) to build 20 multiplex cinemas in Italy over the next three years.

Its Italian Blockbuster video rental joint venture with Viacom has meanwhile grown rapidly in the past three years with more than 1.2m subscribers.

Mr Sposito also expected Fininvest's "Pagine Italia" telephone directory start-up to break even in the next two years.

"Our real core business is advertising," said Mr Sposito. With 60 per cent of the $3.5bn a year Italian advertising market, the group has now set its sights on gaining a 20 per cent slice of Europe's $20bn a year market.

Claudio Sposito: group cannot grow any more in Italy — Reuters

Atlas Copco profit falls 37% in first quarter

By Nicholas George in Stockholm

Shares in Atlas Copco, the Swedish engineering group, fell 7 per cent yesterday after the announcement of a 37 per cent drop in first quarter profits and a warning from the company that demand in key European markets remained weak.

Atlas Copco blamed the profit decline on falling sales, a poor product mix and delivery problems at its main compressor division. It said most volume had been lost in high-margin products such as oil-free compressors.

Giulio Mazzalupi, chief executive, said business confidence in Germany remained weak and the German market was setting the tone for the region. He expected the "extremely poor business conditions" in South America to continue. The company lost 40 per cent of total sales in the region in the first quarter.

He also urged some caution towards the US market where he said growth was consumer driven, with little investment in engineering.

In the three months to March 31, pre-tax profits fell from SKr881m a year earlier to SKr557m ($66.5m). Sales fell from SKr8.11bn to SKr7.75bn with operating margins down from 12.9 per cent to 9.4 per cent.

Operating profits in the compressor division fell from SKr607m to SKr390m. The introduction of a new computer system hit the company's ability to deliver products. Mr Mazzalupi said this had led to a larger than normal backlog of orders at the end of the first quarter.

In the rental services division, which includes Prime Service, the US rental equipment company acquired by Atlas Copco in 1997, profits fell from SKr97m last time to SKr83m. The company said there had been pressure on rental rates as well as a loss of momentum in sales due to the reorganisation of US operations caused by the Prime acquisition.

Johan Trocme, an analyst with Goldman Sachs, said Atlas Copco had clearly signalled a cyclical weakness in the first half. However the market had not expected some of the one-off costs that had been incurred in the first quarter.

Atlas Copco's most traded A share closed down SKr17 at SKr220 in Stockholm.

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This announcement appears as a matter of record only.

NEW ISSUE

April 8, 1999

US$144,900,000

USi

USinternetworking, Inc.

6,900,000 Shares
Common Stock

NASDAQ Symbol: "USIX"

Price US$21 Per Share

Prior to the offering there had been no public market for these securities. USinternetworking, Inc. implements, operates, and supports packaged software applications that can be accessed and used over the Internet. These Internet Managed Application Provider services are based on packaged applications from leading software vendors and are designed to meet the needs of middle market companies for business functions such as sales force automation, customer support, e-commerce, and human resource and financial management.

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April 8, 1999

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PHARMACEUTICALS MOVE TO CREATE COUNTRY'S BIGGEST SUPPLIER FOLLOWS SIMILAR CONSOLIDATION AMONG DRUGS GROUPS

Japanese wholesalers announce merger plan

By Paul Abrahams in Tokyo

Three Japanese pharmaceutical wholesalers yesterday announced they would merge, creating the biggest supplier in the Japanese market with sales of Y831bn ($7.04bn).

The move by Kuraya, the country's second biggest wholesaler, Sanseido, the fourth largest, and Tokyo Pharmaceutical, follows similar consolidation among Japanese drugs wholesalers whose margins have been hit by healthcare reforms. Similar consolidation has taken place in Europe and the US where wholesalers have been squeezed between purchasers and drugs manufacturers.

Takashi Yamada, president of Sanseido, will become chief executive of the new group, which will have a market capitalisation of about Y1,400bn. Sanseido's shares will continue to be quoted and the new entity will be called Kuraya Sanseido. The deal is expected to be concluded by April next year.

Mr Yamada said: "The pie is getting smaller and profits will not grow in this environment. It is becoming necessary to seek greater volume and reduce costs." The deal should give the new group greater geographical reach – though not a true national network – and about 16 per cent market share. All 6,500 staff would continue to be employed at the merged entity.

Last April Suzuken, the country's leading wholesaler, merged with Akiyama, the biggest supplier in Hokkaido, northern Japan. In October, Nippon Shoji Kaisha merged with Showa Pharmaceutical to create the country's third largest group, called Azwell. Shionogi, a drugs company, plans to merge its 11 wholesale subsidiaries.

"The consolidation of this still fragmented industry is inevitable," said Martin Reeves, a vice-president at Boston Consulting Group in Tokyo. "No companies have the economies of scale that a truly national network would create, manufacturers are squeezing wholesale margins, and few can afford to invest adequately in information technology," he said.

All three groups have strong links with Takeda, the country's biggest drugs maker, which owns 22.5 per cent of Sanseido, 2.9 per cent of Kuraya and 71.9 per cent of Tokyo Pharmaceutical.

Tate & Lyle faces Vietnam loss

By Jonathan Birchall in Hanoi

Tate & Lyle, the UK sugar group, is facing the prospect of at least two years of losses at its newly opened $85m joint-venture sugar processing plant in northern Vietnam, after the failure of efforts to secure adequate supplies of sugar cane from local farmers.

The plant, in the poor province of Nghe An, is Tate & Lyle's largest single investment in Asia and the company's first venture into developing a green-field sugar processing plant.

The project is backed by a $20m concessionary loan from the International Finance Corporation, and is also the largest single investment by a British company in Vietnam.

The facility was officially opened in January, but ceased cane crushing operations last month after processing only 64,000 tonnes of cane.

Tate & Lyle, which holds a controlling 42 per cent share in the plant, had planned to secure up to 360,000 tonnes of cane in the current season from hundreds of small-holders in the district around the factory, with plans to handle 800,000 tonnes of cane annually.

The shortfall partly reflects the effects of a two-year drought which has significantly reduced both local cane production and yields throughout the region. However, the Tate & Lyle plant also lost out in the competition for the limited supplies of cane available, in a way which the company's critics say reflects a failure to understand local political and economic complexities.

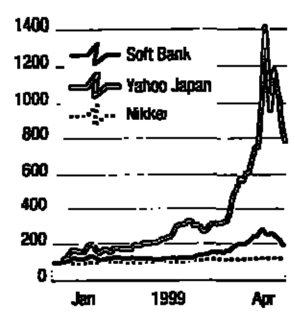
Although the Nghe An provincial government holds a 30 per cent stake in the factory, local officials instructed farmers, who had received start-up funding from Tate & Lyle, to sell their cane instead to two state-owned processing plants in the province.

In addition, some 2,000 unlicensed household-scale processing plants in the surrounding districts have continued to buy cane directly from local farmers, despite earlier assurances from the province that these would be shut down once the Tate & Lyle plant began operations.

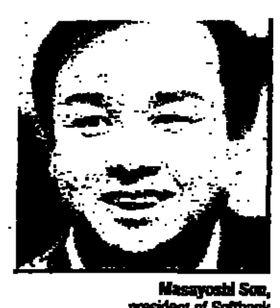
Tate & Lyle also encountered resistance to its attempts to pay for cane through accounts held by local farming co-operatives, rather than direct to the farmers, who distrust both banks and local officials.

Notice to holders of bearer warrants

Softbank, Yahoo! Japan and Nikkei 225 Average
Share prices and index (rebased to 100)



Source: Datastream/ICV



Masayoshi Son, president of Softbank

Softbank set for online investors

Japanese group has structures in place to offer financial planning after deregulation

By Alexandra Nusbaum in Tokyo

When Japan deregulates trading commissions in October, Softbank, the Japanese internet group, plans to be fast out of the virtual gate. The company is constructing an intricate online financial services network to educate and support investors and encourage them to invest over the internet.

Softbank has brought together an extraordinary combination of resources that make it well positioned compared with other Japanese companies planning to sell financial services over the internet.

Other companies are waiting for brokerage licences, developing back-office capabilities, contemplating call centres and gathering online trading know-how. Softbank has already acquired, imported and constructed these elements.

The cornerstone of its network is E*Trade Japan, which Softbank hopes will replicate the success of the US-based electronic trading company E*Trade. Online investors have flocked to E*Trade US, which currently has 650,000 accounts.

The framework for E*Trade Japan has come from Osawa Securities, a failing brokerage house that Softbank bought last October. Osawa, with a new CEO snatched from Nomura Securities, provided E*Trade Japan with a brokerage licence, membership of the Tokyo Stock Exchange and back-office capabilities.

E*Trade Japan has set up a call centre manned by former brokers, to answer complicated questions or execute orders. The company expects to change its name to E*Trade Shoken, or securities group, by the end of April.

E*Trade Japan has set a target of 100,000 accounts in the first year, according to Yoshitaka Kitao, Softbank executive vice-president and chief financial officer, who also serves as president and chief executive officer of 10 other Softbank subsidiaries.

*E*Trade Japan's target* may be optimistic, however. Softbank admits that online trading might be intimidating to Japanese investors, who, unlike their US counterparts, have not been exposed to such basics of financial planning as fundamental analysis, long-term investing and portfolio diver*sification*.

"In Japan, financial planners may exist, but they work for traditional banks and non-bank finance companies," said Mr Kitao.

Japanese brokers have have also been known to "churn" portfolios, engaging in over-active trading to boost commissions. "Japanese investors think mutual funds are short-term trading vehicles, because brokers urge them to buy and sell so frequently," said Mr Kitao.

Softbank says it plans to provide information and financial planning advice to investors through E*Advisors, a web-based service. E*Advisors would be distinct from E*Trade, thereby removing incentives for churning. Softbank plans to launch E*Advisors as a joint venture with Mentum, a Connecticut-based financial planner.

Softbank's research company, Morningstar Japan, will provide content, such as company analysis and recommendations, to E*Trade and E*Advisors. Other companies in Softbank's stable of finance-related products include: Forexbank, an online foreign exchange joint venture with Sonnet Financial; Insweb, an online insurance company; and Cybercash, which develops secure payment systems for the Internet.

Softbank's extensive holdings include Yahoo!, the internet portal, and its sister, Yahoo!Japan, which last year saw its profits climb threefold to Y391m ($3.3m). Softbank is "assuring synergies" with its grouping of companies, said Mr Kitao.

TSMC margins show recovery

By Mure Dickie in Taipei

Taiwan Semiconductor Manufacturing, the world's leading foundry chipmaker, said its first-quarter net profits had fallen 41 per cent year-on-year, but had risen 62 per cent from the previous quarter because of a recovery in profit margins.

Net income totalled T$4.1bn (US$125m) in the first three months of the year, while the group reported a 21 per cent fall in sales from the same period last year, to T$12.5bn.

The chipmaker expects to benefit from a recovery in world chip prices this year, with March booking volume at record levels.

Y.C. Huang, TSMC spokesman, said the recovery in margins compared with the last three months of 1998 was mainly due to higher utilisation of capacity at TSMC, which produces made-to-order logic and memory chips.

First-quarter net profits had also been raised by better results at TSMC ventures Vanguard and WaferTech.

Jovi Chen, semiconductors analyst at the brokerage China Securities, said there had been surprise at the recovery in TSMC's first-quarter gross margins to 49.6 per cent, up from 33.8 per cent in the fourth quarter last year.

Analysts had predicted the year-on-year decline in sales and profits after a relatively robust 1998 first quarter that was followed by a general downturn. "Some of the local design houses were still placing orders at that time. Later on they suffered from the Asian financial crisis," said Mr Chen.

TSMC shares, which are among the bluest of Taiwan's blue-chips, have soared more than 70 per cent since February, both leading and benefiting from a remarkable resurgence of confidence that has carried the island's main index up by more than a third.

BASF pursues growth with deals in Japan

By Paul Abrahams in Tokyo

BASF, the German chemicals conglomerate, intends to conclude a series of deals in coming years to reinforce its Japanese operations, according to Dietmar Nissen, president of BASF Japan.

"Building through organic growth takes a long time in Japan. Although the recession is beginning to loosen traditional ties, market shares remain extremely stable," said Mr Nissen.

"But there are now opportunities for mergers and acquisitions that simply did not exist a few years ago," he added.

Many chemicals groups were heavily indebted and looking to raise cash, he added. Others were realising they did not have critical mass in certain businesses such as pharmaceuticals.

"Japanese executives are not knocking at your door. If you wait for them to come to you, nothing would happen, but they are looking seriously at restructuring and that presents possibilities," he explained.

Mr Nissen denied Japanese press speculation that BASF was interested in buying one of the big groups such as Mitsui Chemicals, the country's second biggest chemicals entity.

"The large Japanese companies are hugely diversified, and we simply don't want to acquire polyethylene or polypropylene capacity in Japan. There will be no mega-acquisitions," he said.

BASF was not coming to Japan with a precise shopping list, Mr Nissen added. But the German group was interested in acquiring speciality chemicals businesses, ranging from pharmaceuticals to engineering plastics, agrochemicals and gasoline additives, he said. There were likely to be step acquisitions and joint ventures, he added.

BASF was not short of cash, but would evaluate each deal to ensure it was good value. "We are not looking aggressively for a Japanese pharmaceuticals company, because there are not many available and those that are are exorbitant. We're not running round with an open chequebook."

Mr Nissen said the group also wanted to cut the cost of its long and expensive distribution chain in Japan. It was cheaper to ship material from Antwerp to Yokohama than move the same goods from Tokyo to Osaka. The group was *supplying the* west coast of Japan from South Korea rather than Tokyo, he added.

BASF hoped to conclude the moves well before 2002, but Mr Nissen explained that foreign companies needed to be patient in Japan.

"Two CEOs don't meet, exchange views, point out *that one business would fit* better with the other and then after a few months of negotiation over price sell the business," he said.

"It just doesn't work that way."

NEWS DIGEST

INDONESIA

Bakrie and Astra meet banks to restructure debt

Bakrie & Brothers and Astra International, two of Indonesia's largest diversified conglomerates, yesterday *presented proposals to their creditor banks to restructure* their outstanding foreign debt.

Bakrie met creditor banks to restructure about $1.15bn in debt but a deal is unlikely before the end of June. Separately, carmaker Astra International presented its proposal to a number of Japanese banks in Tokyo to reschedule a portion of its $1bn and Rp1,000bn ($116m) in debts, divided into three tranches with maturities between three and 7½ years. The company's creditor banks are expected to vote on the proposal on April 28 and bond holders will vote on April 29.

The Indonesian *government* is also *helping* debt-strapped corporations reschedule their borrowings under the Jakarta Initiative but only 15 cases have been successfully concluded. **Shoeb Kagda Zainuddin, Jakarta**

TELECOMMUNICATIONS

AAPT considers partial float

AAPT, the Australian telecoms group that has become a target of a hostile A$1.5bn (US$977m) takeover by Cable & Wireless Optus, said it would consider a partial float of its planned Code Divisional Multiple Access network on the US Nasdaq exchange.

"We're looking at possible partners and we may actually consider floating that off as a separate company," said Larry Williams, AAPT chief executive, after addressing a telecoms conference.

This would involve choosing a partner, floating on Nasdaq, raising the money and building the CDMA network. However, Mr Williams said a float was *only one of eight* options that the company was exploring for its CDMA spectrum, which provides for a digital mobile phone network.

Mr Williams said AAPT was also negotiating an increase in its bank facility to A$300m to help its planned expansion. The company planned about A$450m in capital expenditure over the next three years, he said. **Reuters, Sydney**

AVIATION

Japan Airlines lifted by sales

Japan Airlines raised its year-to-March parent pre-tax profit forecast from Y16bn to Y32bn ($271m) due to capital gains from the sale of aircraft materials that totalled Y15bn. The year-to-March parent revenue is now seen at Y1,160bn, down from Y1,170bn forecast earlier, with net profits now seen at Y26bn, up from Y10bn forecast earlier, it said. **AFX-Asia, Tokyo**

ELECTRONICS

Sanyo to cut 6,000 jobs

Sanyo Electric, the Japanese electronics group, said it planned to cut 6,000 jobs, leaving a group work force of 49,000 by March 2002. The planned cuts at about 190 companies in Japan will be made mainly through natural *attrition, it said.*

Sanyo plans to consolidate development and production of refrigerators by movings operations of a plant in Osaka to another plant in Gunma prefecture by September 2001. In early March, Sanyo forecast a group net loss of Y26bn ($220m) in the year to March, against a net profit of Y12.32bn a year earlier. **Reuters, Tokyo**

RETAILING

Takashimaya profits fall 43%

Takashimaya, a Japanese retailer, has been hit by the continuing slump in consumer spending. It said net profits fell 43.3 per cent to Y4.7bn ($39.83m) in the year to March. Sales were down 4.3 per cent at Y1,189bn, with pre-tax profits down 42.3 per cent at Y9.6bn. **AFX-Asia, Tokyo**

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shimaya profits fall 45%

GUCCI

GUCCI GROUP N.V.

A MESSAGE TO ALL OUR SHAREHOLDERS

The time has come for LVMH to decide whether or not it is serious about acquiring Gucci

The continued uncertainty surrounding LVMH's intentions is detrimental to Gucci, its shareholders and all other stakeholders

Gucci's Supervisory Board rejected LVMH's conditional offers which were neither fair nor reasonable

Your Board is prepared to recommend an unconditional offer for all shares at a minimum price of $88 per share provided that LVMH gives adequate assurances to employees, suppliers and other stakeholders

Gucci is an independent Company directed by an independent Board and Management

Gucci stands by its commitment to the Company's alliance with Pinault-Printemps-Redoute. Through this partnership, Gucci believes it can create significant value for shareholders by building the world's leading multi-brand luxury goods company

YOUR BOARD AND MANAGEMENT REMAIN COMMITTED TO DELIVERING VALUE FOR ALL SHAREHOLDERS

PHARMACEUTICALS RECENT ROUT SEEN AS DUE TO GENERAL SHIFT INTO CYCLICAL STOCKS RATHER THAN TO COMPANY PERFORMANCE

US drug earnings challenge dip in shares

By Tracy Corrigan in New York

The latest batch of US drug company earnings indicates that the recent rout of drug shares reflects a broad shift out of growth stocks and into cyclical stocks that has little to do with company performance.

"The shift has not been triggered by any fundamental problems in the pharmaceuticals industry but by macro-economic factors," said Alex Zisson, pharmaceuticals analyst at Hambrecht & Quist.

Cyclical stocks, after a long spell out of favour, have benefited from expectations of stronger economic growth this year. In the last week, however, the Standard & Poor's 500 pharmaceuticals composite index has slumped 15.2 per cent to 405.69 at Monday's close.

The three US pharmaceuticals companies which reported yesterday, **American Home Products**, **Schering-Plough** and **Johnson & Johnson**, all met or slightly exceeded analysts' first-quarter estimates. While AHP is suffering from weak sales, the others reported double-digit earnings and sales growth, prompting a slight recovery in prices.

So far this season "earnings have been right in line, but a couple of companies with individual problems have been more severely punished," noted Mr Zisson.

Pfizer last week met earnings expectations but reminded Wall Street that it faced a difficult second-quarter comparison because Viagra, its impotence drug, launched to tremendous fanfare a year ago, had not lived up to earlier expectations.

But Mr Zisson noted that nothing had really changed at Pfizer, which has "a tremendous stable of products". The company's share price has slumped from around $150 a week ago to $130¼ yesterday, up $2 11/16.

Eli Lilly, which also matched expectations on Monday, provided greater cause for concern, as sales of its Prozac anti-depressant slid 6 per cent in the US, due to loss of market share. "Given Prozac's significance to Lilly's income statement, it is likely that investors will wait on the sidelines until Prozac's market share decline reverses," said Steven Tye, an analyst at Merrill Lynch.

But he noted that other newer products, such as Zyprexa were performing well, and the company could receive a boost if there was, as expected, a positive outcome to Friday's Food and Drug Administration panel meeting on Actos, a new diabetes drug developed with Japan's Takeda.

J&J reported net earnings of $1.1bn on sales of $6.6bn, up 11.7 per cent and 14.8 per cent respectively, and beat analysts' expectations by two cents.

Schering-Plough produced a 20 per cent increase in net income to $539m on sales of $2.18bn, up 15 per cent. AHP had net income of $654.9m, slightly higher than a year ago excluding an exceptional item.

But worldwide sales fell 1 per cent to $3.4bn and pharmaceutical sales rose only 1 per cent to $2.3bn.

Demand for data telecom services boosts revenues

By Richard Waters in New York

The explosion in demand for data and wireless telecommunications services produced another period of strong revenue growth in the opening months of this year, according to a group of large US telecom carriers which reported first quarter results yesterday.

The underlying earnings for the industry also jumped, helping to justify the stock market's recent enthusiasm for the sector, though the impact of recent big investments dented the results for two companies.

Sprint PCS, the wireless business owned by the third-largest long distance carrier, racked up losses of around $650m in the period, or $1.46 a share, as it continued to plough investment into its new national network. The losses were larger than Wall Street had expected, but so was the growth of the wireless business: it added another 763,000 customers in the quarter, lifting the total to 3.35m, and recorded revenues of $604m.

Meanwhile, **BellSouth's** earnings fell as the company recorded an expected foreign currency loss from its big investment in Brazil. The devaluation wiped $270m, or 14 cents a share, from the local carrier's earnings during the period, producing an overall decline in net income of 31 per cent, to $615m.

The underlying picture on earnings remained robust. The stocks of big US telecom companies have fallen back over the past week, echoing the broader pull-back in the technology sector, though the industry's higher growth rate has still left them considerably above their 12-month lows. **Sprint** was trading at $100¼ yesterday afternoon, some $14 below its peak but still more than 60 per cent up on its 12-month low, while **SBC Communications**, at $54, was more than 50 per cent above its low.

Sprint's core businesses, excluding its wireless operation, beat Wall Street's 90-cents-a-share forecast with earnings of 93 cents a share for the period, or $406m, a rise of 16 per cent.

Sprint's earnings were boosted by strong demand for data services, which helped lift long distance revenues by 9 per cent and overall revenue by 7 per cent, to $4.17bn. Revenues from data services for large business customers jumped by 50 per cent.

The company also narrowed the loss from its troubled international joint venture, **Global One**, to 10 cents a share, from 13 cents a share the year before. Investment in upgrading the company's US network, a project known as ION, is likely to wipe 60 cents a share from earnings this year, Sprint executives said, equivalent to around $1.1bn.

The demand for data services also supported earnings at the Baby Bell companies. **BellSouth** said revenues from data climbed 30 per cent, to $555m, while SBC put its growth at 33 per cent, to $660m. **Ameritech**, the Chicago-based local carrier that is awaiting regulatory approval for a merger with SBC, said its data revenues had grown by 40 per cent, though it did not give further details.

Overall, SBC registered a 6.7 per cent advance in revenues, to $7.3bn, while its after-tax earnings climbed 15 per cent to $1.1bn, or 56 cents a share. Ameritech's revenues rose by 7.8 per cent to $4.5bn, while net income advanced nearly 20 per cent to $705m, or 63 cents a share.

Domestic demand lifts airlines

By Andrew Edgecliffe-Johnson in New York

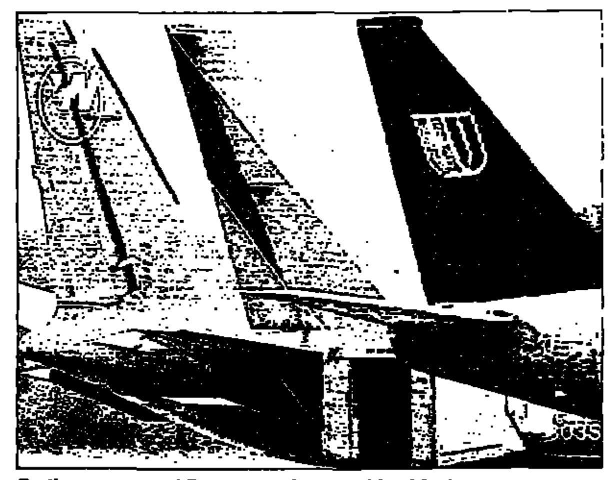
America's largest airlines are seeing robust domestic growth but continued competitive pressure on transatlantic revenues, according to first-quarter results released by four carriers yesterday.

UAL, parent of United Airlines, the largest airline in the US, also reported "signs of recovery" in the Asian market.

Its unit revenues on Pacific routes improved by 3 per cent in February and March – the first such rise since September 1997.

As with **Delta Airlines**, which reported a 15 per cent rise in earnings per share last week, all four airlines reported improved load factors and narrowly beat Wall Street expectations.

UAL, which suffered a weak month in January and added staff to improve punctuality, reported a 28 per cent increase in net earnings. Because it distributes a large share of profits to the employees who own 55 per cent of the company's stock, however, full distributed earnings per share fell 8.3 per cent to $1.54.



On the up: many airlines report improved load factors

Northwest Airlines, which is still recovering from last year's labour dispute, fell into the red, reporting a 36 cents per share fully diluted loss compared to 66 cents per share earnings a year before.

John Dasburg, president of Northwest, estimated that the 1998 strike had knocked $90m from first-quarter profits.

UAL, by contrast, estimated that the pilots' dispute at American Airlines this February had benefited it by about $45m.

At **America West Holdings**, the parent company for the ninth largest US carrier, first-quarter earnings advanced for a sixth consecutive quarter, from 53 to 63 cents per share.

Southwest Airlines, the low-cost operator, increased net income per share by 35 per cent, to 27 cents, and said demand for budget fares remained strong.

Kevin Murphy, an analyst at Morgan Stanley, said: "Southwest stands out. Their cost differential with the majors continues to widen and their product only becomes more competitive."

All four airlines were helped by lower fuel expenses for the period, and analysts said hedging policies would cushion the impact of recent fuel price rises until the third quarter.

UAL's average fuel costs fell 11.8 per cent to 54.4 cents a gallon, Northwest cut fuel bills by 25.8 per cent to 43.9 cents. Southwest achieved a 22 per cent fuel saving with average costs of 39.3 cents.

Northwest's passenger load factor edged up from 70.7 per cent to 70.9 per cent, but seat occupancy figures improved more strongly at the other airlines.

Southwest's load factor was up from 61.2 per cent to 64.9 per cent, America West improved from 62.2 per cent to 64.4 per cent, and UAL advanced from 67.2 per cent to 68.9 per cent.

BNP halts Brazil buy

By John Barham in São Paulo

Banque Nationale de Paris said yesterday it had suspended talks to acquire a Brazilian bank implicated in a financial scandal.

The French bank said it broke off talks with Rio de Janeiro's Banco FonteCindam due to "the current context [of] investigations which have made the continuation of talks with Banco FonteCindam impracticable".

A Senate inquiry, central bank investigators, the federal police and public prosecutors are all investigating suspected irregularities at FonteCindam prior to January's 39 per cent collapse of the Real and the circumstances of its rescue by the central bank after the devaluation slashed its equity by 57 per cent in dollar terms to R$61.2m (US$36.7m).

BNP announced last month, before the investigations began, that it planned to buy 80 per cent of FonteCindam.

FonteCindam and Banco Marka, a fringe Rio de Janeiro bank, were the only two banks to collapse due to January's currency crisis.

Bankers say the country's banks are strong, but worry that the investigations are distracting the government's attention from completing fiscal reforms needed to cement economic stability. They say the crisis underlined the need for stricter regulation of financial markets as well as of the banking system.

The central bank said it assisted the two banks, which bet on the São Paulo BM&F futures currency market against a devaluation of the Real, to enable them to close out their positions without disrupting the market. The central bank feared defaults would undermine confidence in the BM&F which it was using in an abortive attempt to defend the currency.

BNP said it intended to continue expanding in investment banking and asset management in Brazil. BNP began ramping up its activities in Brazil only quite recently.

Ecuador signs power deals

By Justine Newsome in Quito

The government of Ecuador has signed contracts with Wärtsilä NSD of Finland and Energy Development Corporation of the US to increase the country's electricity generating capacity by 510 megawatts, or 28 per cent of national demand, by the year 2001.

Both projects will use domestic, low-cost sources of fuel to generate electricity, in a departure from Ecuadorian policy of importing diesel and bunker fuel for expensive generation.

"This is one more step forward in our effort to avoid power cuts," said René Ortiz, energy minister.

Severe electricity rationing has been imposed in recent years as drought hit the principal hydro-electric plant, Paute, which generates 60 per cent of national supplies.

Wärtsilä is raising $350m through International Finance Corporation to build a 270 megawatt electricity generating plant in eastern Ecuador. The plant will use residue from the state-owned Amazonas oil refinery to generate electricity.

The cost of this electricity will be in same range as hydro-electric power, said David Watson, vice-president of Wärtsilä.

Meanwhile EDC will make an investment of at least $170m to build and import a platform to extract natural gas from the Gulf of Guayaquil, and build a pipeline to a 240 megawatt electricity generating plant on the mainland.

US cigarette sales fall almost 10 per cent

By Andrew Edgecliffe-Johnson

US cigarette sales volumes dropped by almost 10 per cent in the first quarter of 1999, Philip Morris reported yesterday, as price rises took their toll on consumption and retailers cut their inventories.

Heavy promotional spending by the industry leader failed to prevent a drop of 9.6 per cent in its US tobacco volumes, in line with a 9.7 per cent industry-wide decline.

However, a 12 per cent increase in the group's marketing spending helped Marlboro cigarettes win another 2.2 per cent of the US retail market, of which it now claims a 36 per cent share.

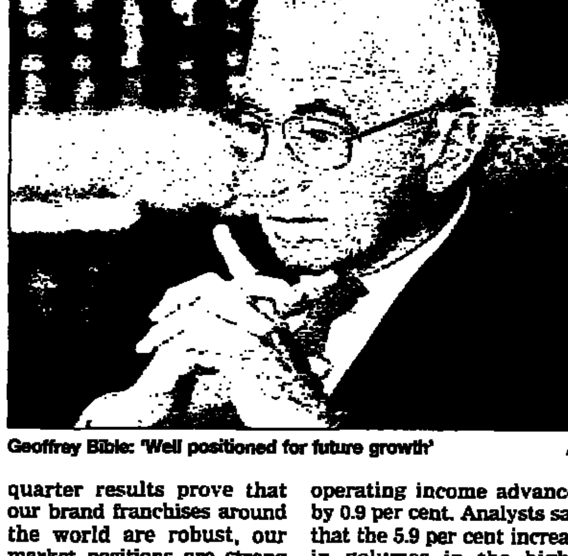
Gary Black, tobacco analyst at Sanford C. Bernstein, said: "Philip Morris blamed the competitive environment, but they are the ones that created the competitive environment."

Analysts expect RJR Nabisco to have suffered a 14 per cent drop in volumes. The owner of RJ Reynolds has been hit by Morris's aggressive promotional activity as well as the 45 cent a pack price rises brought in by cigarette manufacturers to offset the costs of the industry's $206bn legal settlement with US states.

Morris's reported results, which showed a 29 per cent increase in net earnings to $1.79bn, or 73 cents per share, were distorted by the $808m charge taken in 1998 to cover the cost of the legal settlement.

On an underlying basis, net earnings rose 1.4 per cent to $1.96bn, and diluted earnings were up 1.3 per cent at 80 cents.

Geoffrey Bible, chief executive, reiterated that 1999 would be "a year of transition".



Geoffrey Bible: 'Well positioned for future growth' AP

But he added: "Our first-quarter results prove that our brand franchises around the world are robust, our market positions are strong and we are well positioned for future growth."

Outside the US, tobacco volumes fell 11.2 per cent but operating income advanced by 0.9 per cent. Analysts said that the 5.9 per cent increase in volumes in the highly profitable western European and Japanese markets had been offset by a 36 per cent slump from lower-margin markets such as Russia and Brazil.

As well as seeing higher demand from parts of Asia, the group has expanded manufacturing capacity in eastern Europe to make its cigarettes more affordable there.

Operating income from the Kraft food business increased by 5 per cent in North America thanks to strong growth in frozen pizzas and processed meats, and rose by 5.1 per cent in the smaller international food division.

The North American operations took a $157m charge to cover staff cuts and productivity improvements.

They also benefited from cheaper commodity prices.

Miller Brewing, the world's third largest beer group, showed a 6.3 per cent increase in operating income, after a series of disappointing results.

Chase shares drop with news of 12% cost rise

By John Authers in New York

Shares in Chase Manhattan dropped almost 5 per cent in morning trading yesterday, as analysts reacted negatively to news that the bank's costs had risen by 12 per cent over the year, while revenues rose by only 10 per cent.

The share price reaction came despite an increase of 13 per cent in operating earnings from $1.05bn to $1.17bn over the year.

Attention focused on Chase's global services division, which includes businesses such as corporate trust and global custody, where revenues grew by 9 per cent, compared to 15 per cent expenses growth. This was partly due to expenses incurred countering the Y2K problem, and the company's custody business was affected by the move away from relatively high-margin emerging markets funds.

Dina Dublon, Chase's chief financial officer, said the bank would be taking action to alter the trend in global services, but she said the division accounted for only $114m of the $1.2bn total.

She added that the global bank – which came through last year's financial crisis almost unscathed – had raised operating earnings by 11 per cent over a strong first quarter last year. Operating earnings at Chase's US consumer business rose by 22 per cent to $350m. She added that Chase was managing expense growth carefully, and the discrepancy between costs and revenues growth during the first quarter should not take anything away from the overall profit growth.

Bank One, product of the merger of Banc One with First Chicago NBD, saw net income for the quarter rise from $933m to $1.15bn, on the back of a 10 per cent increase in revenue. It achieved the sharpest growth in interest income of any of the large banks, with a 10 per cent rise to $3.66bn, mainly thanks to its $69.1bn credit card portfolio, the largest within the US.

Non-interest expenses were $2.73bn, down $70m from the fourth quarter. Bank One said merger cost savings accounted for $50m of the fall. However, total non-interest expenses, boosted by heavier marketing costs and merger-related charges of $164m, rose to $2.94bn from $2.43bn in the equivalent quarter last year.

San Francisco-based Wells Fargo, formed by the merger of Norwest with Wells Fargo, saw net income compared with its predecessor companies rise by 29 per cent year-on-year to $884m, on an increase in revenue of about 7 per cent.

Net interest income, from deposits and lending, rose only slightly, from $2.21bn to $2.28bn over the year, and the bank conceded that lifting revenue would be difficult for the rest of this year. However, non-interest income, from activities such as investment management and mortgage sales, rose 14 per cent to $1.72bn.

First Union, the highly acquisitive Charlotte-based commercial bank, had already announced last week that its operating earnings, excluding various merger-related charges, had risen by 19 per cent to $965m. Once the previously announced restructuring charge, which will involve shedding 7 per cent of the workforce, is taken into account, net income was down 11 per cent, from $790m to $706m.

Net interest income slipped by 3 per cent from $1.85bn to $1.81bn, while revenue from other activities, in which the bank has invested heavily in recent years, gained 41 per cent to $1.87bn, overtaking interest income for the first time.

By mid-session, Wells Fargo had gained 1.5 per cent, up $⅝ at $41 11/16, while Bank One slipped $1 to $58 5/16. First Union fell $1¾ to $54 5/16.

NEWS DIGEST

UTILITIES

Grupo Endesa in $2.15bn offer for Endesa Chile

Grupo Endesa, the Spanish utilities company, yesterday delivered the final blow in the bid battle for Endesa Chile, the country's largest electricity generator, with a last-minute offer designed to defeat Duke Energy of the US. The $2.15bn offer, of 360 pesos a share for 34.7 per cent of the equity, was registered with Chile's stock market authorities only minutes before the noon deadline. It compares with its initial $1.5bn bid, or 305 pesos a share, for 29.7 per cent of the equity, and appears to top Duke's revised $2.8bn, or 275 peso, offer for 60 per cent.

Shares in Enersis, the Spanish group's Chilean vehicle, and Endesa Chile were suspended at 228 pesos and 249 pesos respectively, slightly up on the day. The Spanish group, through Enersis, already owns 25.3 per cent of the generator. Duke immediately responded by reiterating that its deal offered better value to a bigger percentage of Endesa Chile shareholders, assuming the remaining stock suffers because of the reduced liquidity.

Duke had calculated that Grupo Endesa would have to offer 374 pesos a share to match its bid. Endesa Chile's 48,000 investors have until tomorrow to tender to one of the offers, although the stock market regulator has stipulated that those who back the loser can switch after the winner emerges on Friday. **Mark Mulligan, Santiago**

ONLINE

E*Trade shares soar

Online brokerage shares soared in midday trading on Wall Street after E*Trade, the third-largest company in the sector, reported a 120 per cent rise in quarterly revenues and a one-time gain in net income. E*Trade shares were 16 per cent or $12⅛ higher to $85 15/16, but other smaller competitors also got a boost from investors. Shares of Ameritrade Holdings soared 22 per cent to $107¼ and National Discount Brokers climbed $9⅞ or 25 per cent to $48½.

E*Trade reported net earnings of $5.8m or 5 cents per share, due to the disposal of stock in another company, on a 126 per cent rise in revenues to $126.7m for the quarter ending March 31. The company said it expected to incur operating losses in the future due to its ongoing expansion. New active accounts rose 77 per cent from the previous quarter to 233,000.

Separately, eToys, the online retailer, said it had postponed its planned initial public offering of 8.2m shares due to a recent acquisition. **John Labate in New York**

TECHNOLOGY

Honeywell lands $250m deal

Honeywell has landed a $250m contract with Chevron and reiterated its goal to generate double-digit earnings per share growth in 1999. Honeywell's industrial automation and control unit, over the course of the 10-year contract, will install and maintain automation systems at Chevron's refinery in Richmond, California.

The Minneapolis-based company also reported first-quarter net income of $105.4m or $0.83 a share, against $96.3m or $0.75 a share a year ago. Honeywell said it continued to reduce its working capital rates and expects to generate more than $500m in free cash flow this year.

Honeywell provides control technologies for the space and aviation industries, large industrial businesses and buildings. **Reuters, New York**

INSURANCE

Maritime buys Aetna Canada

A Canadian subsidiary of John Hancock, the US mutual life insurance group, has acquired Aetna Canada for more than C$400m in cash, a deal revealing that Hancock is bucking a trend that has seen many foreign insurers leave the competitive Canadian market.

The acquisition would double the number of Canadians served by Maritime Life Assurance, the Hancock subsidiary, and establish the insurer as Canada's seventh largest. Aetna, the US group, put its Canadian unit on the block several months ago and becomes the latest foreign insurer to exit Canada, a saturated market marked by increasing competition from the domestic financial services industry.

Competitive pressures from banks and mutual fund groups, as well as the need to improve distribution and reduce expenses, is driving rapid consolidation within Canada's insurance sector.

Combined with Aetna Canada's operations, Maritime Life will have revenues from premiums of C$1bn, up from C$500m before the acquisition, and total assets under administration of C$9bn, up from C$6.4bn. The deal will give Maritime, which has a strong presence in eastern Canada, a significant position in the key Ontario market. **Scott Morrison, Toronto**

ANTI-VIRUS SOFTWARE

Network Assoc shares dive

Shares of Network Associates, the anti-virus software company, took a nosedive yesterday following a warning from the company that it expected very low second-quarter revenues. The stock was trading at $10½ in mid-session yesterday, down 31 per cent from Monday's close. For the year to date, the stock is down 82 per cent from a January 4 price of $61¼.

After the market closed on Monday the software group reported a 20 per cent decline in first quarter net income and warned that it did not anticipate receiving any significant orders from distributors during the current quarter. Typically, distributors account for about 60 per cent of sales, the company said.

First quarter net income of $26.2m, or 18 cents a share, was down from $32.7m, or 24 cents. The latest figures included adjustments to change accounting for past acquisitions following a review by the Securities and Exchange Commission. Excluding the adjustments, profit was $45.6m, or 30 cents. Revenues increased 8.4 per cent to $245.2m from $226.1m. The company blamed its problems on a shifting of business spending to deal with the Y2K computer problem as well as lengthening sales cycles. **Louise Kehoe, San Francisco**

DATA STORAGE

Internet lifts EMC

EMC, the Massachusetts-based computer group, had a vibrant first quarter, with net income up 51 per cent to $221m. Revenues rose 36 per cent to $1.13bn. The company credited the internet for creating a surge in demand for data storage systems, its major product. "Every mouseclick on the internet retrieves or creates data," said chief executive Mike Ruettgers. "The need to store and access it day and night is making EMC Enterprise Storage a must-have foundation for any major information infrastructure." The company predicted revenue and income growth of more than 30 per cent for the year. Earnings for the first quarter were $0.41 per share, against $0.28. Income grew more quickly than revenues as the company's high-margin software business grew. **Victoria Griffith, Boston**

هكذا من الاصل

A billion reasons why being free may bring rich rewards

But valuations being put on Freeserve, Dixons' internet provider, are raising questions, writes Christopher Price

In a market of sky-high multiples for internet shares, the valuations of £2bn-£4bn ($3bn-$6bn) being put on Dixons' Freeserve by analysts will come as little surprise.

Never mind that the internet service provider is likely to make just £9m in revenues this year, nor that the recent days' correction to internet stocks, including by default Dixons, has once again raised fundamental questions over internet valuations. Or that the business model remains unproven, or that Freeserve faces fundamental challenges over the next few years.

Instead, the valuations are based on Freeserve's current strong position, comparisons with other internet businesses, forecasts of explosive growth in the UK internet market, the medium's increasing share of advertising and the expected rise in e-commerce.

The estimates have been made following Dixon's appointment of Cazenove and Credit Suisse First Boston to explore options. This could involve a public offering, or a sale of some or all of the business.

How are these valuations arrived at? All start from the premise that Freeserve, like most internet businesses, will grow at the same rapid rate as is forecast for the whole internet market. Since launching last September, Freeserve, the UK's first mass-market subscription-free access service, has attracted some 1.3m users. It is the UK's biggest internet service provider.

Its success is based on two factors: being first to market, and Dixons' position as the biggest computer retailer in the country, enabling it to distribute its free internet software quickly. The achievement has been sustained by Freeserve's development as an internet portal – a gateway that attempts to keep users on its site as long as possible through a range of on-line services.

The mathematics underpinning Freeserve's valuations could unravel

Freeserve charges advertisers and e-commerce groups fees measured by the number of visitors, the length of their stay and the amount of shopping they do. These revenues, and a share of the telephone income on calls and customer support, are its only income.

Morgan Stanley Dean Witter, the US investment bank, forecasts that Freeserve will have almost 5m users by 2004, or 24 per cent of the total UK internet market.

It also believes the UK internet advertising market will be worth £579m by 2004 and that Freeserve will have a 5 per cent share. In total, Freeserve's revenue in five years is forecast at £118.8m, equating to £26.90 per user.

The bank has then used a price-to-sales multiple based on the forecast rate of growth, which it puts at an annual rate of 67 per cent, and applied this to the 2004 revenue total. When discounted back to the present day, this gives Freeserve a valuation of £2.5bn.

ABN Amro, the Dutch-owned bank, arrives at a similar figure by taking the market capitalisation to sales revenue ratio of Yahoo!, the US search engine and internet portal, and applying it to estimates for the UK group.

Other internet service providers do not pass for easy comparison. America Online, Mindspring and Earthlink, for example, are all subscription-based internet access services and as such have much more "stickiness", as industry parlance puts it.

This refers to attracting and keeping users. Like Freeserve, they have added services to their offerings, but their paying subscribers are seen as much more loyal than the free service users.

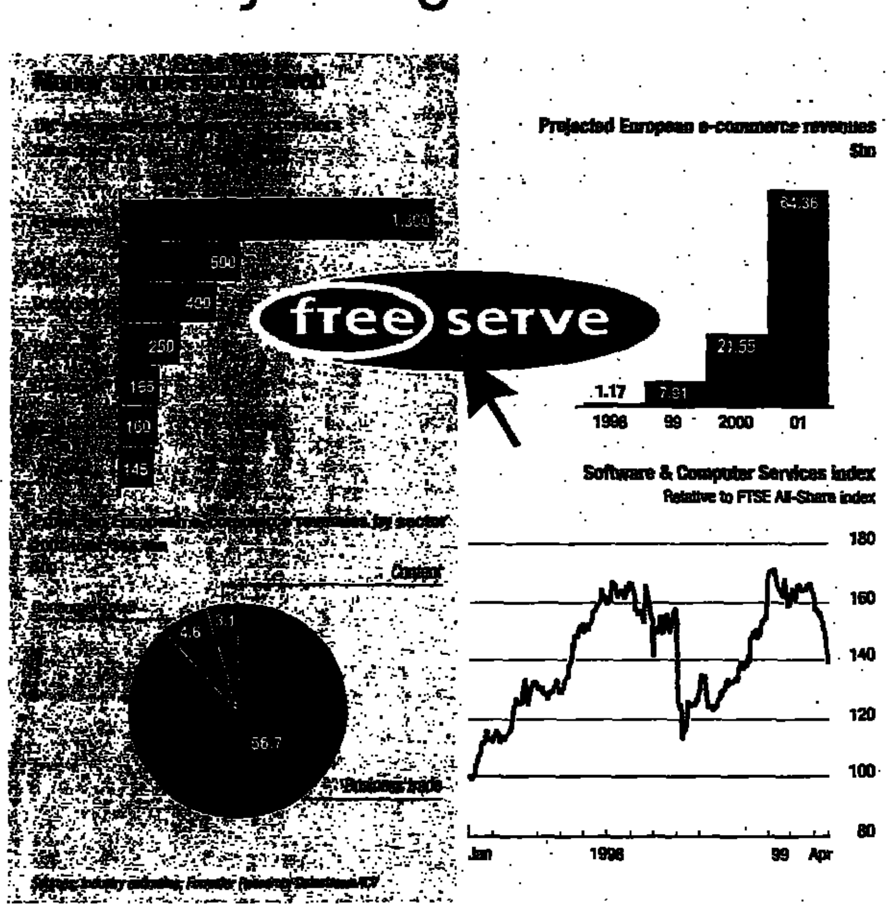
This argument is one of the most powerful against giving "free" services premium internet ratings. However, there are other concerns. First is the growing competition in the UK internet market. There are now some 40 free internet service providers. All are relying on the same business model as Freeserve, counting on revenues from e-commerce and advertising. Another threat comes from technologies that could undermine the portal model. Digital television, for example, could turn the cable operators into the biggest internet service providers for consumers using TV sets to access the web.

In addition, many observers believe the PC will be increasingly replaced as the main conduit to the internet either through TV sets or portable wireless devices. In this vision of the world, Freeserve would come under threat from cable operators and mobile phone groups.

Finally, many of the valuation estimates rely on the big multiples on US internet stocks being justified. With observers predicting a correction to the US sector, the mathematics underpinning Freeserve's suggested valuations could unravel.

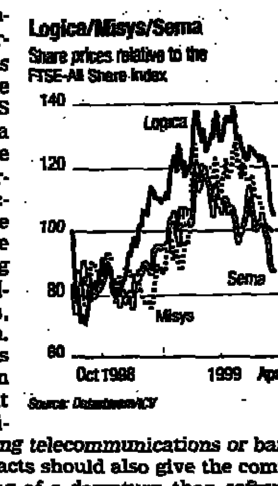
On Monday, US internet stocks fell sharply, in part because of bearish comments by Wall Street's leading internet analyst, Mary Meeker, who, ironically, works for Morgan Stanley Dean Witter.

"Many of them are going to blow up this year," she was reported as saying of internet stocks. Dixons, and analysts with punchy valuations, will be hoping Freeserve, should it come to the market, does so sooner rather than later.



COMMENT

High-tech stocks



The top UK information technology stocks – mainly service companies – such as Logica, Sema and CMG have caught a cold from their US cousins. This is not just a knee-jerk reaction to the upset from Compaq, the personal computer manufacturer. US service stocks have also been badly derated. The fear is that as spending grinds to a halt on fixing millennium bomb problems, earnings growth will soften. However, companies such as Logica are not sending in armies of bug-busters but undertaking more sophisticated tasks such as integrating telecommunications or banking networks. And the contracts should also give the companies greater advance warning of a downturn than software or hardware companies. Such qualities, however, do not come cheap and neither do the shares, even after the recent slump. But if last year's panic is any guide, the market will soon forget this wobble.

Tour operators

Thomson Travel's warning that it will not let Airtours seize its market leadership – as the latter would if it wrested control of First Choice from Switzerland's Kuoni – without a bare-knuckle fight has led to a de-rating of the tour operating sector. Thomson fell 9 per cent and Airtours 7 per cent yesterday. Memories of the price war and overcapacity of 1995 are still sharp in investors' minds. Thomson is aware of this. It wants to create such market anxiety that Airtours shies away from bidding. However, Airtours' tightly-held shares are sufficiently attractive to withstand the heat. And Thomson is no longer a private company that can blindly pursue market share with no regard for profitability: its shares are 6 per cent below last year's overpriced float. Such threats lack credibility. A Thomson counter-bid for First Choice is possible. But at best, given a combined 42 per cent market share, it would be just a spoiling tactic designed to dump any Airtours bid into the Competition Commission. It is hard to see how Thomson could afford First Choice: its paper is an unappealing currency and cash too ambitious given the size of the target and gearing constraints. Hence fears that Thomson will simply add capacity, precipitating a price war it would probably lose. This would be disastrous for the sector, but most of all for Thomson. It would be better for it to copy Airtours and expand profitably overseas.

HFC to cut costs at Beneficial

By George Graham

HFC Bank, the UK arm of Household International, the US financial services group, aims to cut the cost base of Beneficial Bank, acquired last year, by more than half before the end of 1999.

HFC, which issues the Goldfish and GM credit cards, cut £10m ($16m) from Beneficial's costs in the last six months of last year, and has set a target of cutting its cost base by 58 per cent. "By year end 1999 I am confident we will have done that," said Adrian Hill, chief executive.

The merger between Household International and Beneficial Corporation, Beneficial Bank's US parent, was completed last June 30.

Pre-tax profits at HFC Bank, the core operation, rose 17 per cent in 1998 to £91.1m after a £3.4m exceptional cost. Beneficial Bank reported pre-tax profits of £12.1m after an exceptional charge of £77.6m, mostly to bring its accounting standards into line with HFC's.

The incorporation of Beneficial, which had a large affinity card business issuing credit cards in partnership with groups such as Cambridge University and the British Medical Association, has propelled HFC into fifth place among UK credit card issuers. It also ranks in the top three for retail credit at the point of sale. It has 900,000 customers for the Goldfish card, launched with Centrica, the gas company, and 600,000 for the GM card, issued in partnership with the US car manufacturer.

Debenhams sees no improvement

By Peggy Hollinger

Debenhams, the department store group, yesterday poured cold water on suggestions that the long-depressed UK clothing sector was beginning to show signs of a revival with a disappointing statement on current trading.

Terry Green, chief executive of the company which was demerged last year from the Arcadia fashion group, said trading still remained highly volatile from week to week.

"We are still operating in a tough environment," he said. Although sales had improved towards the end of the first half, the first seven weeks of the second had shown a return to the depressed levels seen earlier in the year. Sales excluding new space were 1.9 per cent down in the first half, he said, against a 2.5 per cent decline reported as of January.

However, Mr Green said he was confident that customer confidence was returning and there were some signs of an improvement in sales of women's wear.

Mr Green was reporting interim profits at the top end of expectations, up by 3 per cent to £79.4m ($127.8m). Group sales were 2 per cent ahead at £785.2m for the 26 weeks to February 27, although like-for-like sales were down by 1.9 per cent.

The dividend is increased 5 per cent to 4.1p, on earnings per share ahead 2.2 per cent to 14.1p.

Strong growth for life assurers

By Christopher Brown-Humes

Prudential and Legal & General, two of the UK's leading life assurers, yesterday reported strong growth in first-quarter business, but said uncertainty over stakeholder pensions was hitting personal pension sales.

They also disclosed that a move away from bank deposits, because of low interest rates, had led to a sharp rise in sales of investment bonds.

The Prudential saw UK new business climb 8 per cent to £230m ($370m) – based on an industry standard that adds regular premiums to 10 per cent of single premiums – while L&G saw new business rise 32 per cent to £127.4m.

Stakeholder pensions are not due to be launched until April 2001, but there is evidence of consumers holding back on decisions until they know exactly what the new product looks like.

The Pru reported a 32 per cent drop in new individual pensions sales to £76m, stressing that a 34 per cent drop in the size of its direct sales force to 2,850 was partly responsible.

Sales of the Prudence Bond climbed 59 per cent to £434m, reflecting the trend away from bank deposits, but the group missed out on the last minute rush for personal equity plans, with investment product sales falling 51 per cent to £22m.

Egg, the group's direct banking arm, has taken £4.5bn in deposits since its launch last October, and is adding to the total at the rate of £140m a week. It has 370,000 accounts. Prudential said it would "probably" be applying for a US listing later this year.

L&G said new individual business rose 29 per cent to £100.5m, on a weighted basis, while group business was up 45 per cent at £26.9m.

The group saw a 50.4 per cent surge in sales of personal equity plans and unit trusts to £307.3m. Its pension fund investment business also grew strongly, rising 97 per cent to £2.9bn, as it won 81 new mandates and benefited from a continued shift from active management to index-tracking.

Analysts have been impressed by the strength of life companies' first-quarter figures. But there are concerns over margins and fears of a slower rate of growth later in the year.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Air Partner	6 mths to Jan 31	24.7	(21.3)	0.849	(1.35)	5.9	(9.3)	3.5	June 11	3	-	8
Arlen	Yr to Dec 31	37	(28.2)	0.303♠	(3.37♠)	0.2L■	(3)	0.9	June 9	0.9	1.3	1.3
Bellway	6 mths to Jan 31	180.6	(173.3)	21.2♥	(22.8)	12.6	(14.2)	3.3	July 1	3	-	10.2
Cosalt	6 mths to Feb 28	46.5	(46.5)	2.3	(2.3♥)	12.77	(13.22)	4.75	July 23	4.5	-	13.25
Cresco Intl$	Yr to Dec 31	8.86	(1.7)	0.38L	(0.089)	7.7L	(1.1)	-	-	-	-	-
Debenhams	6 mths to Feb 27	785.2	(1,083)	79.4	(242.1♥)	14.1	(54.8)	4.1	Aug 6	3.9	-	9.8
Environmental Prop	Yr to Dec 31	38.5	(31.7)	1.04♠	(1.3♥)	0.94†	(2.02)	0.3	June 17	0.4	0.65	0.7
Hughes(TJ)	Yr to Jan 30	101.5	(75)	5.11	(3.01)	13.94‡	(10.17)	2.76	Aug 2	2.4	3.88	3.37
McCarthy & Stone	6 mths to Feb 28	51.7	(41)	12.1	(9.1)	7.1	(5.2)	1.33	June 1	1	-	4.5
Minorplanet Sys	6 mths to Feb 28	2.18	(1.26)	0.896L	(0.721L)	1.84L†	(1.98L)	-	-	-	-	-
St Ives	6 mths to Jan 29☆	223.2	(179.6)	27.3	(24.1)	18.04	(18.23)	4.25	June 4	3.75	-	12.7
SmithKline Beecham	3 mths to Mar 31	2,089	(1,888)	510	(440)	6	(5.2)	2.7	July 15	2.425	-	10.935
Versailles	Yr to Feb 28	232.4	(155.6)	11.4	(7.7)	3.12	(2.05)	0.26	June 9	0.23	0.495	0.45

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Invesco Convertible	6 mths to Feb 28	138.48	(-)	0.371	(0.312)	2.47	(2.08)	2.3	♦	2.2	-	4.4
Pennine Aim VCT II	Yr to Feb 28★	114.51	(18.08)	0.078	(0.077)	1.69	(1.58)	nil	-	1.6	3.05¥	2.16¥

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ■On reduced capital. ΦAim stock. $US currency. ☆Comparatives restated. ★Comparatives for 10 mths. ¥Includes distribution of capital gains. ♦Already paid.

Minorco offer for Reunion

By Gillian O'Connor

Minorco, the Luxembourg-based affiliate of Anglo American, is making an offer for Reunion Mining a few weeks before its merger with Anglo. As a result, the Anglo American mining group will find itself paying more than £37m ($59m) to buy back Namibian zinc mining rights it gave to a smaller competitor three years ago.

Reunion Mining's main asset is a 60 per cent interest in the low-cost Skorpion zinc deposit in Namibia. This deposit was discovered by an Anglo subsidiary, but it gave an option over 60 per cent of it to Reunion, because it could not find a way to extract the metal economically.

The recommended offer of 88p cash per Reunion share, values the company at just over £37.2m, or £38.1m assuming all option and warrant holders accept. The offer is unconditional.

JOHN W. HUNT
ADVISES

Reward systems and disincentives

Income differentials and 'fat cat' pay produce damaging internal tensions

Dear Professor Hunt,
I am an executive in a successful, global firm who is irritated by the continuing increase in pay of chief executives. I realise they shoulder responsibility for satisfying shareholders, but it is the rest of the team that orchestrates the generation of profits on a day-to-day basis. Is there research to show what effect "fat-cat" pay has on their colleagues' performance?

Your question will touch a nerve with many people. Does the relative contribution of the chief executive of a Fortune 500 company warrant paid income differentials of 200:1? Do partners in law firms deserve incomes 12 times greater than those on the bottom rung of their profession? The answer is probably no.

However, your question ignores the leading determinant of earnings; the labour market. Differentials in income are not based on differentials in output or contribution. They are based on market perceptions of relative worth and on the availability of the skills these high-earners can offer.

Any attempt to control these rates is certain to fail. If they become excessive, buyers will withdraw.

So why does chief executive pay continue to skyrocket? First, most CEOs did not join their company to become multi-millionaires. They are motivated by power, autonomy, challenge, recognition or a combination of these.

However, the process becomes insidious. Money is the one reward that is comparable with their peers. So, if the board's remuneration committee wishes to sustain its chief executive's motivation, it tends to come back to that universal yardstick of success.

What of the effect such rewards have on their colleagues? Research has shown that compensation schemes are based on one of two propositions. The first – the stretch theory – is that the greater the differences in hierarchical pay levels, the better the performance of executives who aspire to the status of a fabulously paid chief executive.

The problem is that too great or too little stretch will demotivate these so-called high achievers. Further, significant stretch must be possible for other people besides the chief executive. If it is only the CEO who hits the big time, the impact is likely to be negative.

Given that there is only one top job and the odds of reaching it are stacked against the majority of aspirants attaining it, the downside is that the rest of the team could become seriously disenchanted. The flaws in the stretch theory were highlighted in the February issue of the Journal of the American Academy of Management. Research by Matt Bloom of Notre Dame University. His research examined American League baseball where, he claims, team owners and managers believe the higher the reward differentials for the stars, the better highly paid individuals will perform and the greater the team's success.

Prof Bloom's findings show the reverse is true. The greater the difference between the pay of the stars and that of the rest of the team, the less impressive the performance of the stars and the team as a whole.

Conclusion? Highly paid stars undermine group cohesion, which results in less effective teams and less financially successful clubs.

The second proposition holds that motivation comes from compressing income differentials. It puts the emphasis on the team and inculcates feelings of equity, common purpose and mutual support.

Teams should be rewarded as teams, not as individuals, to reinforce team cohesion. And cohesion in the top team is an important predictor of company performance.

The effects of either stretch or compression are not confined just to those at the top; they affect all employees. Greater income differentials may motivate those at or near the top but have negative effects for the rest of the troops "slogging away", as they would say, "doing the business".

Conversely, compressed pay differentials at the top should generate more togetherness and increase co-operation. Again, this makes assumptions about the employees' personalities which research on motivation does not support. Differences in individual patterns of motivation make much of the research on reward systems of little value.

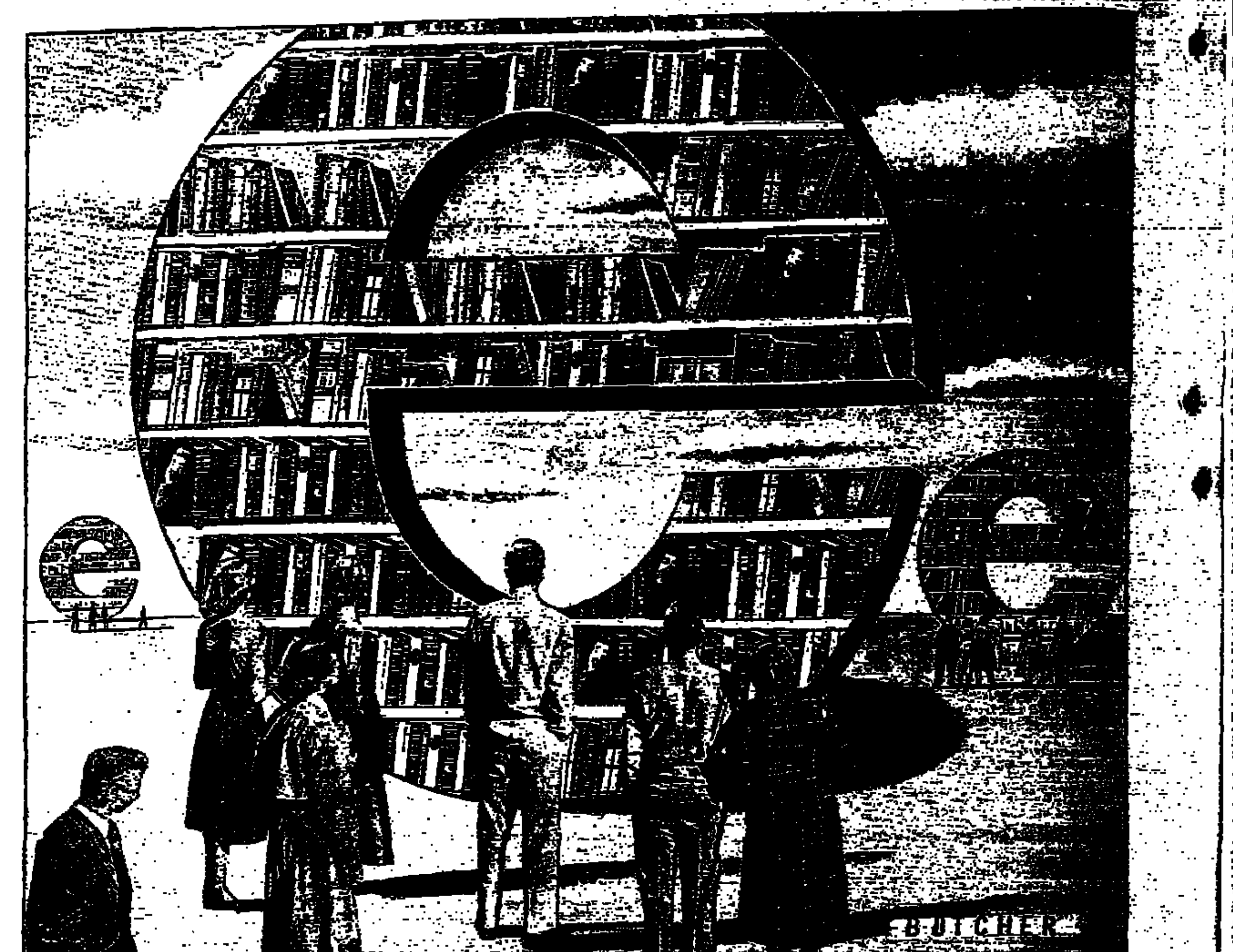
Financial reward systems are, at best, clumsy, invariably outdated and insensitive to individual differences. Their only sensitivity lies in their capacity to upset people.

John W. Hunt is Professor of Organisational Behaviour at London Business School and a consultant to private and public sector clients. This column appears fortnightly.

INFORMATION TECHNOLOGY E-BOOKS

Publishers turn the e-page

Cleaner type and a forthcoming industry standard may boost electronic books, writes **Alan Stewart**



After years of anticipation, electronic books have become a reality. In recent months, several of these hand-held computers that store text electronically have gone on sale in the US – others are due to follow soon.

The long-term impact is still uncertain. Not everyone is convinced "e-books" will prove universally popular. Paper books, say sceptics, will never be completely replaced.

"Whenever I hear people say that, I always point out that it's already too late," says Daniel Munyan, chief executive of Everybook, an e-book reader supplier. "Paper encyclopaedias are already gone."

To ensure that the take-up of e-books is not disrupted by a standards war (such as the one that took place over the VHS and Betamax standards for video), a group of interested companies is developing an Open eBook standard. A draft version is scheduled for publication at the end of May.

The group includes Everybook and four other e-book reader companies – NuvoMedia, SoftBook Press, Glassbook and Librius. Other members are publishers Bertelsmann, HarperCollins, Microsoft Press, Penguin Putnam, Simon & Schuster and Time-Warner Books, as well as Franklin Electronic, publishers of 200 electronic reference books, and online bookseller barnesandnoble.com.

As well as attending in its role as a book publisher, Microsoft is also bringing to the party a new font technology, known as ClearType. By addressing an area smaller than a pixel, a single point in an image, the new technology is claimed to make screen type clearer and easier to read, especially on the liquid crystal displays found on laptop computers.

A second new print technology from software company Adobe, another group member, is Precision Graphics Mark-up Language (PGML). This is a hybrid of Adobe's proprietary Portable Document Format (PDF) and the hyper text mark-up language (HTML) used for page layout on the web.

"Adobe's technology provides a 400 per cent improvement on the current 'blockiness' of pixels, while ClearType, at its very best, will never be more than a 300 per cent improvement," says Mr Munyan. Yet, he believes a joint effort by Microsoft and Adobe would produce truly readable e-books, comparable to paper, at very low cost.

'The student will be able to get an e-book reader loaded with the whole curriculum'

Everybook decided to use PDF, as 90 per cent of all current publications already exist in that format, rather than HTML, which is used by NuvoMedia and SoftBook Press. "At my price, the quality has to be head-and-shoulders above the competition," says Mr Munyan. He is not, he says, dealing with fiction for the beach.

Mr Munyan believes his e-book reader is competing with paper, not a computer screen. "Paper is perfect," he says. "It has been perfected over a millennium." He is therefore enthusiastic about new cholesteric liquid crystal screens being developed by Kent Display Systems with technology from Kent State University in Ohio.

"They use a form of cholesterol to create an opaque background of any colour, and lay down a foreground in sharp 100 dots-per-inch (dpi) resolution – better than a computer screen's 72 dpi – with no backlight at all," he says. "It is just like paper. If you take it outside, it's absolutely clear in natural light."

A cholesteric screen requires no power to hold a static image. "Once you have turned the page in your e-book, you could pull out the battery," he says. "If you fall asleep reading, when you wake up the next morning, you're on the same page, and you've burned zero battery power."

Not only do the new screens display a clearer image, they are also completely glass-free, and consequently much lighter than glass screens. "They are going to completely revolutionise e-books," enthuses Mr Munyan, who is testing a personal model of Everybook's eBook reader with cholesteric screens.

Everybook sees a large market for e-books in universities. "As a freshman, the student will be able to get an e-book reader loaded with the whole curriculum for the next four years, and then have updates downloaded from the internet," he says.

All five current suppliers of e-book readers are US-based, and NuvoMedia's Rocket eBook was the first to go on sale. The device was launched in October at the New York flagship store of Barnes & Noble, the big US bookstore chain, which is selling electronic books from its web site.

At $500, and weighing just 20oz, the unit measures 7.5in by 4.8in (standard paperback size) and has a monochrome liquid crystal screen 4.5in by 3in. NuvoMedia says the Rocket eBook can hold around 10 novels, and has a battery life of 20-25 hours.

The SoftBook, meanwhile, is available from SoftBook Press for either a one-off payment of $600 or an initial payment of $300, followed by 24 monthly payments of $20. At 8.5in by 11in (A4 paper size), the reader is larger than NuvoMedia's and heavier, weighing just under 3lb. Said by SoftBook Press to be able to store around 250 novels, the SoftBook has a claimed battery life of only five hours.

The professional model of Everybook's Dedicated Reader is scheduled for launch around mid-year at a price of $1,500. For this, however, the purchaser receives a reader with two 9.75in by 11.75in full colour facing screens, which fold together to make the leather-covered device look like a book.

Glassbook intends to bring out its e-book reader "some time this calendar year". Finally Librius intends its Millennium E-Reader to be available around the beginning of July.

Ironically, a similar European device was in existence 2¼ years ago. The NewsPAD, manufactured by Acorn, was used in a European Union-funded electronic newspaper trial in conjunction with El Periodico de Catalunya, based in Barcelona, Spain.

But at that time internet line speeds were too slow to support large downloads. The method chosen for delivery of news content was therefore overnight television broadcast. Time now, perhaps, for the NewsPAD to be dusted off and turned into an internet-connected e-book reader.

MANAGEMENT TOTAL QUALITY MANAGEMENT

Making continuous improvement better

The 'excellence' model used by organisations across Europe is being updated. **Sathnam Sanghera** reports

In the fickle world of management techniques there is one survivor. Total Quality Management, originally dismissed as a 1980s fad, still commands passionate support. This is despite accusations that it is excessively bureaucratic and inward-looking.

Those who dislike it, hate it. But those who stand by TQM, with its central belief that quality should be applied to every aspect of an organisation, are positively evangelical.

At a conference in Geneva today Europe's most dedicated TQM supporters are attending the launch of a new model that promises to extend its shelf-life.

The organisation behind the conference, the European Foundation for Quality Management, is updating its TQM "excellence model" to make it more relevant for the next century.

Like the old EFQM model, it will stress continuous improvement, empowering employees and delivering customer satisfaction, as well as internal issues such as processes and leadership. But it will add a 1990s emphasis on innovation, knowledge and the management of partnerships.

"Looking for quality is a process of evolution. It's like a Russian doll – every time you upgrade, you don't lose your previous model, you upgrade and build on it", says Giovanni Quaglia, model development manager at the EFQM.

While most other management fashions have been consigned to the dustbin, the EFQM's TQM model continues to be successful. In last November's list of the most respected companies in Europe, published by PricewaterhouseCoopers and the Financial Times, seven of the top 10 were EFQM members.

British Telecommunications, a founding member of the EFQM, was a European pioneer. "We have been using the EFQM model since it began," says Peter Docwra, the head of excellence at BT. "We recognised that in order to keep up with our American competitors and in order to be a global player we had to look at the models that our international counterparts were using."

BT, which has changed from state monopoly to international player in a very competitive market, adopted TQM in 1986. "After we were privatised we had a phase of macho management when all that mattered was profit," says Mr Docwra. "But customer satisfaction has become increasingly important ever since then. TQM, in the form of the business excellence model supplied by EFQM, helped us realise it was not good enough to just think about shareholder value."

Such enthusiasm is by no means universally shared. Amanda Eyles was involved with the model while technical director at Bostik, the glue manufacturer, between 1992 and 1998. She thinks that although the theory is "very good", TQM can become too bureaucratic.

"So many procedures are written out that it can stop people using their own initiative and creativity within the organisation," she says.

Another criticism of TQM is that it uses too many words to express obvious things. Wordy initiatives can make it difficult to win the support of employees, especially in companies where morale is undermined by redundancies or where the top management is seen to lack a real commitment to quality.

Day Job, a novel by Jonathan Baird, voices the cynicism many workers feel about TQM and its tendency to lapse into verbosity. In one scene the main character and his "team" have to come up with a mission statement. An employee asks: "Do you think we should add something like: 'Develop focus on clearly defined goals: conceive, test and implement actionable means to attain these goals?'"

TQM sceptics might feel the EFQM's new model falls into a similar trap. One of its central concepts goes by the acronym of Radar, representing the five tenets of corporate excellence: Results, Approach, Deployment, Assessment and Review.

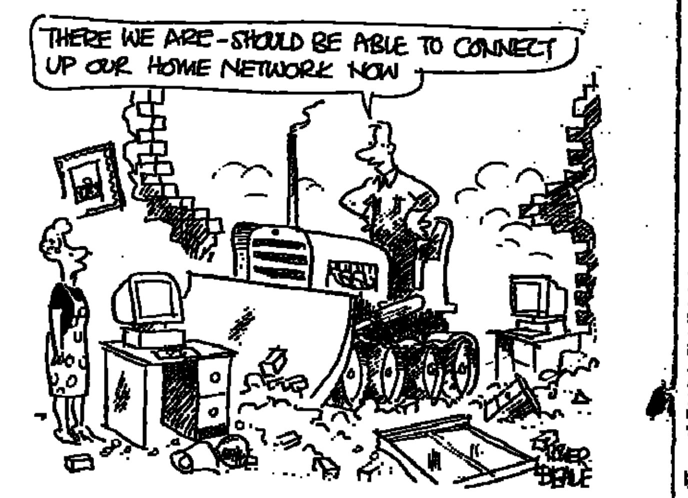
The launch brochure says: "The Radar logic states that an organisation needs to determine the Results it is aiming for, plan and develop an integrated set of sound Approaches to deliver the required results. Deploy the approaches in a systematic way to ensure full implementation. Assess and Review the approaches followed based on monitoring and analysis of the results achieved and ongoing learning activities."

Mr Quaglia concedes: "It is not rocket science. But having a new model is like philosophy. It states what already exists but gives it new shape."

LOUISE KEHOE
IN SAN FRANCISCO
EAGLE EYE

Intel presses home advantage

The semiconductor giant aims to become the top supplier of technology for household networks



There are 18m homes in the US with at least two or more personal computers. By 2003, the number is expected to rise to 28m. If you are in a multi-PC household you have probably thought about creating a home network. The advantages include shared internet accounts as well as shared use of printers, scanners and other peripherals. Everyone on the network has access to the best equipment available.

Many schemes have been proposed for creating home networks without forcing users to cut holes in walls and string new wires throughout their homes. Home networks might be linked via phone lines, wireless communications systems or even electric wiring. But all are tricky for the householder to install.

Intel, the semiconductor industry giant, has set its sights on becoming the top supplier of technology for networks inside homes, as well as the chips that go inside PCs. Using phone lines within the home, data signals are sent between home computers at a high frequency that does not interfere with voice telephone calls.

The AnyPoint home network is so easy to install that even an FT columnist managed it. At less than $100 per connection, the home network is cheaper than adding, say, a new printer.

The bad news is that Intel is not allowed to offer its plug-and-play home networking products outside the US. Telecoms regulators in other countries have yet to approve the scheme. For those of you outside the US, this might just be worth an old fashioned protest march, or at least a letter to the your telephone company. If that network doesn't respond, try politicians.

* * *

There is a big problem looming on what we used to call the "information highway". The 10-wheelers of electronic business-to-business commerce are getting up to speed – with suppliers and buyers of all manner of goods exchanging orders via the internet – but nobody has defined the rules of the road.

The highway analogies may be hackneyed, but they help explain problems in e-business arising from a lack of universal standards. Imagine what would happen if trucks carrying oil chose to drive on the right hand side of the road, while steel trucks chose the left.

This is essentially what is happening in the fast lanes of e-business. Each industry or "vertical" segment is creating its own set of standards for how to exchange data, but most do not take full account of the standards created by others. But without standards, e-business may be heading toward a pile-up of immense proportions.

There is a common route, or technology foundation, for e-business. XML, or extensible mark-up language, is a method of "tagging" portions of data to define their purpose. On an order form, for example, tags might include price, quantity, product description and so on. But various industries have different requirements and established ways in which they present orders and bills, so numerous incompatible "extensions" or versions of XML have emerged.

There are several worthy efforts under way to bring disparate industry standards together, but they take time. Industry leaders such as Microsoft have proposed overarching schemes that would draw all factions together. Eventually one of these approaches might be successful. In the meantime, the best approach may be to ignore the whole standards issue and get on with doing e-business.

This is the conclusion Hewlett-Packard, Chevron, General Motors, Cisco Systems and a host of other big companies have reached. All are using Ariba Systems' procurement network. The Silicon Valley software start-up has created an internet marketplace for businesses. Corporate users install Ariba's software on their internal networks. Employees of these companies can call up the program to buy anything from fuel oil to office notebooks. It may not be a universal standard, but for now it works.

* * *

Just as electronic business is moving from hype to reality, it seems investors are becoming disenchanted. The sell-off in US high-technology stocks is even harder to fathom than their enormous rise in value. It is especially ironic that Compaq Computer's problems seem to have been a primary factor in spooking high-tech investors. Like earlier computer giants, Compaq appears to have become so tied up in internal issues that it failed to respond quickly to technology change – in this case the internet.

Compaq's troubles show the dangers of failing to adapt quickly to e-business. Far from raising questions about the value of internet stocks, Compaq's situation highlights the growing dependence of business on internet technologies.

To my mind, that should boost the valuations of the suppliers of the "tools and plumbing" that make it all possible. But since when was the stock market rational?

* * *

Rivals for the label of second-biggest US computer company (after IBM) Compaq and Hewlett-Packard are both looking for new chief executives. At H-P, Lew Platt plans to retire next year, while Compaq has a vacancy now. Both have hired headhunters, but already the same names are coming up on both companies' lists. In this sector of the computer market competition can be expected to drive prices up, not down.

Share your views in the Eagle Eye discussion group on the FT web site (www.FT.com) or contact Louise Kehoe by e-mail on lkehoe@ix.netcom.com

هكذا من الاصل

Euro becomes a casualty of Balkan war

Nervousness over Kosovo is turning investors off the euro-zone as the rising Nikkei offers greater attractions, writes **Alan Beattie**

Someone seems to have it in for the euro. Every time the fledgling currency looks like struggling out of the downward trend it has followed since the beginning of the year, something else comes along to knock it down again.

In what Jim O'Neill, chief currency economist at Goldman Sachs, has called the *euro's annus horribilis*, almost anything bad that could conceivably have happened to it already has.

The latest villain of the piece has been the performance of the Japanese stock market at a time when war in Europe has made some international investors hold back from plunging money into the euro-zone.

The Nikkei, having trailed downwards for years while the economy has been caught in recession, then suffered along with all other equity markets from the global turmoil last year. But the sustained rise in the index this year – and the consequent attraction of capital which might otherwise have flowed into European assets – is something few could have predicted.

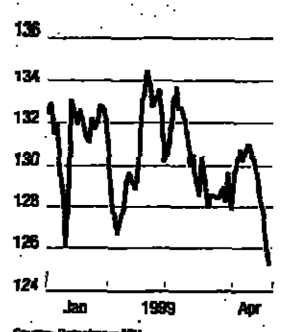
Could this mean that the much-heralded overseas capital flows into euro-denominated assets, whose absence has done so much to contribute to the euro's underperformance, will be postponed indefinitely?

The timing of the Nikkei's run was unfortunate, coming at a time when the Kosovo war meant that the euro was badly placed to absorb another blow.

Many thought that the rises in Japanese stocks in March were no more than a temporary phenomenon related to end of fiscal year capital flows, as happened in 1998.

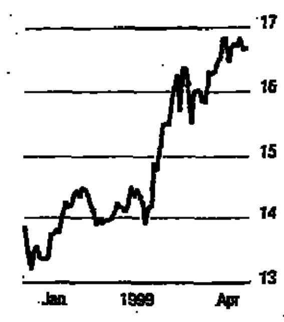
With speculation in the markets about the amount of money flowing back to Japan to dress up balance sheets, rising equity prices were thought to be no more than short-term beneficiaries. They also had the fortuitous effect of increasing the solvency of many banks through their equity holdings

Japanese yen
Against the euro (¥ per €)



Source: Datastream/ICV

Japan
Nikkei 225 Average ('000)



But the sustained gains around the 16,500 level in the Nikkei since then have led to a rebalancing of many portfolios, including among Japanese investors.

A Standard & Poor's MMS survey shows Japanese institutional investors turning relatively bullish on the Nikkei, with the average forecast for the end of September this year at 16,780, and less positive on overseas investment.

"There has been a clear shift in global asset allocation over the past couple of months from funds who were massively underweight in Japanese equities," says Robert Parker, deputy chairman of Credit Suisse Asset Management in London.

"Most of this has been a shift of foreign capital into Japan at the expense of European equities, but there has also been a clear decline in Japanese institutional and retail investors exporting money," he says.

With the huge Japanese current account surplus continuing to generate spare cash, any move in Japanese investor sentiment in favour of domestic rather than euro-zone assets could have profound consequences for the currency.

This week the euro fell towards its lowest ever against the yen, dipping below Y125 for the first time since the Bank of Japan intervened to weaken the yen in January. Market analysts have confirmed that the euro-yen exchange rate has seen heavy action in recent weeks, with large institutional purchases driving the Japanese currency higher.

Mr O'Neill says the main determinant of the euro's weakness has been the change in relative interest rates between the US and the euro-zone. But he also says the recent decline in Japanese investor sentiment towards euro-denominated assets is a significant phenomenon.

"It is hard to say how much of this is voluntary," he adds. "So much index-tracking goes on that when the market goes up, many investment managers have no choice but to follow it."

But one of the remarkable aspects of this is that underlying reported sentiment among Asian investors has been strongly in favour of the euro, even though it has not shown up in price action.

"There is an amazing degree of desire in the market to be bullish on the euro," says Mr O'Neill. "Big fund managers in Asia want to take unhedged positions in euro assets. But the Kosovan war has caused them to hold back."

If the stock market recovery in Japan presages a return of domestic consumer confidence, it could be the euro-zone economy which looks like the sick man of the G7 – and the currency could continue to suffer.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Apr 20 National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop 300	1276.86	-2.80	-34.02	1.95	6.21	1321.37
FTSE Eurotop 100	2944.38	-2.64	-79.90	1.88	14.16	1060.72
FTSE Eurobloc 100	1041.41	-2.50	-26.69	1.96	1.95	1059.11
FTSE EuroMid	1298.80	-1.28	-16.62	2.65	8.55	1355.34
FTSE EuroMid Eurobloc	1232.09	-1.31	-16.42	2.48	6.13	1264.57
FTSE EuroMid Ex UK	1290.65	-1.25	-16.29	2.31	6.21	1321.07
FTSE Eurotop 300 Regions						
Eurobloc	1301.39	-2.41	-32.19	1.90	2.79	1332.15
UK	1257.82	-3.13	-40.59	2.21	12.23	1334.19
Europe Ex-Eurobloc	1262.67	-2.78	-36.05	2.01	9.63	1318.22
Europe Ex-UK	1287.93	-2.28	-30.09	1.81	2.81	1314.95
FTSE Eurotop Industry Sectors						
RESOURCES	1096.96	-3.71	-42.24	2.56	6.33	1154.79
Mining	1179.35	-4.63	-57.12	2.97	21.37	1230.74
Oil & Gas	1052.38	-3.67	-40.04	2.54	5.47	1084.31
BASIC INDUSTRIES	1237.99	-0.90	-11.30	2.35	6.95	1272.54
Chemicals	938.57	-1.50	-14.32	2.28	2.83	958.59
Construction & Bld Matls	1150.95	+0.69	+7.92	2.19	3.06	1184.53
Forestry & Paper	1103.97	-0.22	-2.38	3.50	38.68	1201.07
GENERAL INDUSTRIALS	1179.46	-2.58	-31.28	2.33	6.36	1211.37
Aerospace & Defence	828.76	-3.81	-32.80	2.03	3.94	844.30
Diversified Industrials	934.53	-1.79	-17.03	2.19	1.73	957.82
Electronic & Elect Equip	1127.40	-2.80	-32.50	1.68	9.86	1144.48
Engineering & Machinery	1132.59	-3.06	-35.75	3.87	5.83	1154.84
CYCLICAL CONS GOODS	1412.30	-1.51	-21.65	2.13	0.80	1451.84
Automobiles	1043.93	-1.61	-17.10	2.16	0.53	1054.21
Household Goods & Texts	1430.69	-1.05	-15.16	1.99	0.00	1442.90
NON-CYC CONS GOODS	1185.28	-1.59	-19.19	1.56	6.39	1224.28
Beverages	945.13	-0.57	-5.39	2.44	10.32	976.32
Food Producers & Process	898.28	-2.12	-19.37	1.77	3.36	910.15
Health	981.52	-4.08	-41.76	1.12	0.00	995.21
Packaging	835.36	+0.28	+2.33	1.08	0.00	836.40
Personal Care & Hse Prods	1104.65	-2.43	-27.56	0.99	1.94	1118.05
Pharmaceuticals	1074.11	-1.53	-16.68	1.30	5.22	1084.97
Tobacco	1265.69	-0.12	-1.50	3.50	26.75	1316.35
CYCLICAL SERVICES	1340.71	-2.54	-34.94	1.85	6.87	1387.13
Distributors	598.64	+0.24	+1.41	1.56	0.00	605.37
General Retailers	1122.11	-2.53	-29.14	1.90	3.83	1149.34
Leisure Entertmt & Hotels	1075.91	-2.19	-24.06	1.80	8.72	1101.12
Media & Photography	1221.44	-3.32	-41.95	1.74	10.76	1245.28
Rests, Pubs & Breweries	898.16	+0.65	+5.79	2.65	3.71	928.47
Support Services	1036.60	-2.88	-30.47	1.26	3.28	1050.80
Transport	1000.28	-2.45	-25.27	2.29	5.18	1024.06
NON-CYCLICAL SERVS	1357.07	-2.36	-32.73	1.29	1.72	1398.55
Food & Drug Retailers	1122.30	-1.79	-20.48	1.70	6.11	1145.71
Telecommunications Servs	1323.62	-2.48	-33.67	1.22	0.43	1343.79
UTILITIES	1300.57	-1.89	-25.08	3.09	8.10	1387.08
Electricity	987.03	-1.39	-13.98	3.29	5.57	1023.75
Gas Distribution	1088.82	-2.84	-31.87	1.54	8.21	1207.21
Water	842.57	-3.44	-29.99	5.39	5.94	887.91
FINANCIALS	1361.09	-2.82	-39.47	2.12	7.96	1408.77
Banks	993.16	-2.66	-27.17	2.43	7.56	1015.58
Insurance	976.48	-3.06	-30.79	1.40	1.91	990.17
Life Assurance	1077.68	-3.47	-38.77	1.86	8.46	1099.94
Investment Companies	1071.72	-1.89	-20.62	2.14	0.00	1097.43
Real Estate	765.59	-1.85	-14.43	2.80	1.67	787.35
Speciality & Other Fin	1006.26	-2.79	-28.88	2.26	2.94	1026.04
INFORMATION TECH	927.47	-6.27	-62.08	0.90	4.42	934.17
Information Tech Hardware	1043.79	-6.33	-70.57	0.98	6.24	1052.75
Software & Computer Serv	657.67	-6.05	-42.35	0.60	0.15	659.35

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Jun	2961.0	2940.0	-76.0	2972.0	2944.0	134	5795

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P	3100 C	3100 P	3150 C	3150 P
Apr	207	3	158	3	107	4	58	7	18	21	4	58	2	108	-	-
May	233	37	192	47	156	61	122	78	92	98	68	124	48	155	-	-

Est vol total 411. Prev day's open interest total; 17,369. Premiums shown are based on settlement prices.

OTHER INDICES

	Apr 20	Apr 19	Apr 16	1999 High	1999 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3614.61	3702.59	3643.80	3723.36	3260.29	3723.36	2433.07
DJ Euro Stx 50	3613.98	3705.63	3655.15	3725.40	3325.58	3725.40	2419.23
MSCI Europe	(u)	1271.37	1268.01	1288.81	1153.00	1315.55	510.78

Source: Financial Times Information. *Subject to revision next day. (u) unavailable.

CURRENCIES, MONEY & BONDS

EURO-ZONE BONDS

Apr 20	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ SOVEREIGNS								
UK	01/01	4.250	AAA	102.892	2.55	-0.03	-0.57	-0.15
Denmark	01/02	4.750	AA+	104.428	3.02	-0.03	-0.23	+0.18
Sweden	03/01	5.000	AA+	103.714	2.84	-0.03	-0.30	+0.14
Greece	11/06	8.750	BBB	115.853	4.25	-0.04	-0.15	+0.79
■ SUPRANATIONALS								
ADB	10/07	5.500	AAA	108.670	4.12	-0.05	-0.21	+0.53
EIB	04/08	5.000	AAA	107.486	3.99	-0.05	-0.10	+0.29
Eurofima	12/09	5.625	AAA	110.965	4.32	-0.04	-0.21	+0.51
World Bank	04/05	7.125	AAA	118.489	3.53	-0.05	-0.12	+0.31
■ UTILITIES								
EDF	10/03	3.750	n/a	102.315	3.19	-0.04	-0.19	+0.18
TEPCO	02/03	4.750	AA	104.248	3.54	-0.04	-0.14	+0.53
Quebec Hydro	03/08	5.375	A+	106.917	4.42	-0.05	-0.21	+0.72
Norsk Hydro	10/99	7.250	A	101.771	3.13	-0.05	-0.25	+0.56
■ FINANCIALS								
Bad Wurtt	02/10	5.375	AAA	108.838	4.33	-0.04	-0.11	+0.45
OKB	09/07	5.750	AAA	111.914	4.04	-0.03	-0.10	+0.45
Credit Local	04/08	5.250	AA+	107.723	4.20	-0.05	-0.21	+0.50
Abbey Natl	01/09	5.000	AA-	102.801	4.63	-0.05	-0.12	+0.82
■ INDUSTRIALS								
Unilever	10/01	5.125	AAA	104.797	3.07	-0.03	-0.25	+0.37
McDonalds	03/08	5.125	AA	106.597	4.22	-0.05	-0.15	+0.52
Philip Morris	06/08	5.625	A	105.515	4.86	-0.05	-0.08	+1.16
BAT Int Fin	07/08	5.375	A-	104.595	4.81	-0.05	-0.21	+1.15
■ PFANDBRIEFE								
Rhein Hypo	12/01	5.500	n/a	106.144	3.01	-0.05	-0.23	+0.31
Eurohypo AG	01/04	5.000	n/a	106.942	3.38	-0.08	-0.18	+0.20
Bayer Vereins	01/06	6.000	n/a	113.114	3.76	-0.08	-0.15	+0.30
Depfa	07/08	4.750	n/a	104.490	4.15	-0.08	-0.09	+0.45
■ HIGH YIELD								
Geberit	04/07	10.125	B+	115.000	6.11	-0.01	-0.16	+2.52
Colt Telecom	11/07	8.875	n/a	107.345	7.69	-0.05	+0.00	+4.10
Impress Metal	05/07	9.875	B	112.000	6.95	-0.01	-0.47	+3.38
Remy Cointreau	07/05	10.000	B+	108.410	8.25	-0.05	-1.77	+4.93

Standard & Poor's ratings. Source: Interactive Data/FT Information.

FTSE Eurobloc 100
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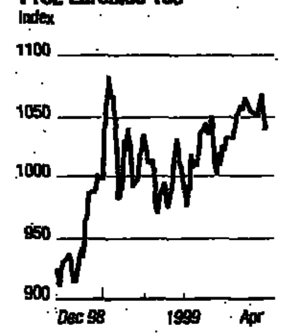
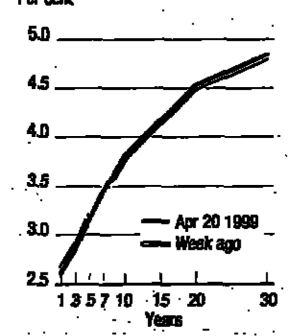


Euro bond yield curve
Per cent



Sources: FTSE International; Interactive Data/FT Information

EURO SPOT FORWARD AGAINST THE EURO

Apr 20		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA
Europe												
Czech Rep.	(Koruna)	37.7954	+0.0587	698 - 210	37.8450	37.7380	37.9450	-4.7	38.2043	-4.3	39.3577	-4.1
Denmark	(DKr)	7.4324	-0.0005	287 - 361	7.4400	7.4250	7.4352	-0.5	7.4407	-0.4	7.4636	-0.4
Greece	(Dr)	325.852	+0.4700	414 - 890	325.910	324.846	327.6346	-7.3	331.2033	-6.8	344.6299	-5.8
Hungary	(Forint)	251.684	+0.3800	522 - 806	252.250	251.200	254.4046	-13.1	259.6172	-12.6	282.2838	-12.2
Norway	(NKr)	8.2796	+0.0131	752 - 839	8.2875	8.2750	8.3113	-4.6	8.3581	-3.8	8.5124	-2.8
Poland	(Zloty)	4.2706	+0.0159	673 - 739	4.2747	4.2659	-	-	-	-	-	-
Romania	(Leu)	15851.55	+11.6400	288 - 042	-	-	-	-	-	-	-	-
Russia	(Rouble)	26.7372	+0.0455	375 - 369	26.9159	26.6277	-	-	-	-	-	-
Slovakia	(Koruna)	44.9939	-0.0042	375 - 503	45.0610	42.3274	-	-	-	-	-	-
Sweden	(SKr)	8.9216	+0.0311	150 - 282	8.9295	8.8850	8.9243	-0.4	8.9283	-0.3	8.9483	-0.3
Switzerland	(SFr)	1.6018	+0.0005	010 - 025	1.6049	1.5982	1.5992	1.9	1.5951	1.7	1.5770	1.5
UK	(£)	0.6593	+0.0009	590 - 596	0.6619	0.6577	0.6609	-2.9	0.6636	-2.6	0.6762	-2.6
Americas												
Argentina	(Peso)	1.0656	+0.0047	654 - 657	1.0683	1.0635	-	-	-	-	-	-
Brazil	(R$)	1.8223	+0.0510	167 - 278	1.8323	1.7922	-	-	-	-	-	-
Canada	(C$)	1.5857	+0.0123	849 - 864	1.5869	1.5823	1.5887	-2.3	1.5938	-2.0	1.6179	-2.0
Mexico	(New Peso)	10.0331	+0.0589	264 - 398	10.0658	10.0000	10.1922	-19.0	10.4992	-18.6	12.1426	-21.0
USA	($)	1.0657	+0.0044	655 - 658	1.0684	1.0636	1.0678	-2.4	1.0719	-2.3	1.0924	-2.5
Pacific/Middle East/Africa												
Australia	(A$)	1.6425	+0.0141	415 - 435	1.6473	1.6359	1.6457	-2.3	1.6514	-2.2	1.6783	-2.2
Hong Kong	(HK$)	8.2563	+0.0333	549 - 577	8.2615	8.2478	8.2735	-2.5	8.3111	-2.7	8.5806	-3.7
India	(Rs)	45.5869	+0.0932	555 - 843	45.7596	45.4689	45.8649	-7.8	46.5120	-8.3	50.1025	-9.9
Indonesia	(Rupiah)	9185.91	+58.72	330 - 851	9236.50	9150.20	9402.03	-28.2	9802.44	-26.8	11438.00	-24.5
Israel	(Shk)	4.3046	+0.0243	991 - 101	4.3140	4.2812	-	-	-	-	-	-
Japan	(Y)	126.019	+0.7220	963 - 074	126.100	125.200	125.7442	2.6	125.2343	2.5	122.8460	2.5
Malaysia	(M$)	4.0495	+0.0166	611 - 626	4.0594	4.0422	-	-	-	-	-	-
New Zealand	(NZ$)	1.9385	+0.0045	366 - 403	1.9473	1.9337	1.9417	-2.0	1.9476	-1.9	1.9793	-2.1
Philippines	(Peso)	40.6013	+0.3249	423 - 603	40.6129	40.3104	40.8751	-8.1	41.3734	-7.6	43.7101	-7.7
Saudi Arabia	(SR)	3.9964	+0.0162	956 - 972	4.0070	3.9888	4.0064	-3.0	4.0276	-3.1	4.1385	-3.8
Singapore	(S$)	1.8212	+0.0113	204 - 220	1.8233	1.8169	1.8189	1.5	1.8157	1.2	1.8135	0.4
South Africa	(R)	6.4739	+0.0435	623 - 854	6.4955	6.4240	6.5388	-12.2	6.6543	-11.1	7.1708	-10.8
South Korea	(Won)	1266.26	-11.7000	581 - 670	1286.35	1266.35	-	-	-	-	-	-
Taiwan	(T$)	34.8782	+0.1222	717 - 847	34.9590	34.8130	34.9247	-1.6	35.0717	-2.2	35.8318	-2.7
Thailand	(Bt)	39.8500	+0.2953	177 - 822	39.8925	39.6366	39.9039	-1.6	40.0619	-2.1	41.2345	-3.5
UAE	(Dirham)	3.9141	+0.0160	133 - 148	3.9852	3.8950	3.9224	-2.5	3.9388	-2.5	4.0206	-2.7

Euro Locking Rates: Austrian Schilling 13.7603, Belgium/Luxembourg Franc 40.3399, Finnish Markka 5.94573, French Franc 6.55957, German Mark 1.95583, Irish Punt 0.787564, Italian Lira 1936.27, Netherlands Guilder 2.20371, Portuguese Escudo 200.482, Spanish Peseta 166.386. Bid/offer spreads in the Euro Spot table show only the last three decimal places. Bid, offer, mid spot rates and forward rates are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.

FTSE EUROTOP 300

Name	Price (Euro)	Chge + or -	Mkt cap Euro(bn)	Vol (m)	Yld
AEROSPACE & DEFENCE					
Brit Aero	6.43	-.4	11.4	8.2	1.5
Rolls R	4.49	-.1	5.8	6.0	2.2
Smiths Ind	15.18	-.6	4.7	1.1	2.0
Thomson CSF	27.51	-.5	4.5	8.7	3.8
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CFTC facing pressure over rule change

By Nikki Tait in Washington

Pressure mounted yesterday on the Commodity Futures Trading Commission, the US futures industry regulator, to allow US customers direct access to electronic trading systems run by non-US derivatives exchanges, at least on an interim basis.

The regulator has been mulling rules that would allow foreign electronic exchanges into the US, without requiring them to go through the cumbersome process of registering at a US "contract market".

But draft proposals, released by the CFTC in March, were immediately criticised as too complex. Exchanges such as the London International Financial Futures and Options Exchange, which had hoped to make its new electronic Liffe Connect trading system available in the US this year, were furious, warning that it would be well into 2000 before issues were resolved and it could go ahead.

The situation is further complicated because Eurex, the largest European exchange, was allowed to put some trading terminals in the US a few years ago, before a CFTC "freeze" was imposed. France's Matif also has access through an electronic link with the Chicago Mercantile Exchange. Liffe claims this gives the two European exchanges an unfair advantage.

At a meeting in Washington DC yesterday, organised by the regulators to air industry views on the subject, lawyers for Liffe claimed it was incumbent on the CFTC to take action soon, having created the imbalance in the first place.

One temporary solution already mooted would be for the commission to send "no action" letters to exchanges such as Liffe, as it did previously with Eurex, pending the development and release of final rules.

Meanwhile, big trading firms also have misgivings about the proposed rules, claiming foreign markets already accessed by in-house electronic routing systems would fall foul of the CFTC.

Earlier this week, the Futures Industry Association, representing the large brokerage companies, suggested an alternative solution. It advocated an "interim order" from the CFTC, which would provide guidelines for foreign exchanges; set out reporting requirements; but spell out regulatory objectives rather than prescriptive rules.

In contrast to the CFTC stance, several commissioners have indicated that they view the situation as undesirable. Commissioner Barbara Holum has called for an immediate end to the moratorium on the placement of foreign terminals in the US.

● David Brennan, chairman of the Chicago Board of Trade, was due to speak just 24 hours after surviving a tough board meeting that ended with pledges of support for Tom Donovan, the CBOT president and most senior staff member. The two clashed last week, and Mr Brennan is believed to have asked for Mr Donovan's resignation. In a statement, Mr Brennan said he regretted and accepted responsibility for last week's events.

Rally extended as share prices fall

BENCHMARK BONDS

By Florian Gimbel in London and John Labate in New York

Government bonds extended their rally, begun late on Monday, largely in response to a sharp sell-off in European and US equity markets.

Euro-zone debt markets took their cue from US Treasuries, which opened stronger on the back of a falling Dow and disappointing US trade figures.

"The weakness in equity markets highlights the safe haven status of bonds," said Jeremy Stretch at Bank of America.

The 10-year German bund future was up 0.08 to 115.61 after having retreated from earlier highs.

European bonds also benefited from the latest Ifo survey on German business sentiment. The March index came out below expectations, highlighting the continuing sluggishness of the core European economies. The Ifo index rose to 90.2, from 89.7 in February, but fell short of economists' average expectations of 90.7.

Recent comments by Wim Duisenberg, president of the European central bank, added to the positive undertone in Europe.

The prospect of another euro-zone interest rate cut as early as September bodes well for bonds, but left the forex market unimpressed. The euro thus remained remarkably stable yesterday.

In the US, the trade deficit widened to a record $19.4bn in February from a $16.81bn gap the prior month.

"The series itself is not a market-mover," said Claude Persico, economist at Dresdner, Kleinwort Benson. "The focus today is on equity prices. But it's further evidence that the effects of the global crisis are not over."

Mr Persico said a strong dollar and continued high levels of US consumer spending could drive the trade deficit to further record levels in the months to come.

At the same time, analysts are expecting the widening deficit to drive down estimates of robust US gross domestic product, a bullish sign for bonds.

But others are less optimistic. "The abrupt about-turn in the US equity market overnight rescued bonds, but there is an ongoing dynamic that should worry fixed-income investors," said Ian Douglas at Warburg Dillon Read.

By early afternoon the Treasury benchmark 30-year bond was down 1/32 at 96, yielding 5.525 per cent. Among shorter term issues the 10-year note was down to 96 7/32, yielding 5.159 per cent and the two-year note was unchanged at 99, yielding 4.942 per cent.

UK gilt prices were higher, with the 10-year future closing 0.34 up at 117.39. "The rise in UK retail prices [from 2.4 to 2.7 per cent] was not high enough to rule out another interest rate cut," said Joanne Collins at Daiwa Europe.

But analysts warned that the minutes of the latest Monetary Policy Committee meeting, released today, could contain unpleasant surprises.

"If there is evidence of disagreement among the MCP members, the short end of the [UK] yield curve would be vulnerable to a sell-off," said Andrew Roberts at Merrill Lynch.

He pointed out that the short end was currently discounting "another one and a half rate cuts", leaving ample room for disappointment.

Japanese government bonds continued to outperform all other markets as the outlook brightened for today's 10-year JGB auction.

"Normally, the market would trade cautiously ahead of an auction. But this time the market seems confident that there will be sufficient demand," said Ms Collins.

She added that investors were driven up the curve in search for higher yields, thus rendering the 10-year segment the most active.

June futures ended 0.47 higher at 134.66, after rising as high as 134.81.

Eurohypo in global issue

NEW ISSUES

By Vincent Boland

Borrowers were out in force yesterday, dominated by a €2bn pfandbrief issue from Eurohypo, the mortgage bank controlled by Deutsche Bank. It was the first global pfandbrief issue from a savings bank borrower and met strong demand from European investors searching for yield, including a big block outside Germany.

The issue is to be priced today to yield 36–37 basis points over the 10-year German bund. This level is 1–2 basis points above the price at which DePfa, the biggest issuer of pfandbriefe, would be able to tap the market.

Eurohypo brought a €500m floating-rate issue to the market last week and is one of the top four issuers of pfandbriefe. Bankers at Morgan Stanley Dean Witter, joint lead managers with Deutsche Bank and Dresdner Bank, described the latest issue as "an investor-driven transaction" capitalising on growing international demand for pfandbriefe.

Tokyo Electric Power returned to the market with a €1bn issue, its second big euro bond since the beginning of March.

Bankers said the appearance of several Japanese borrowers in recent weeks – Toyota Motor Credit Corporation tapped the US dollar market yesterday – highlighted the continuing rehabilitation of Japanese issuers and growing investor willingness to buy the paper.

"Demand for Japanese credit is coming back – that's a good trend in the market," said a banker at Industrial Bank of Japan, joint lead with Paribas and WestLB, adding that Tepco's €750m five-year issue in early March had given the latest deal some momentum.

Tepco, the world's largest privately-owned electricity company, priced its €1bn issue at 59 basis points over the euro-denominated government benchmark. The spread tightened by half a basis point in late trading, the banker said. The March issue was priced at 56 basis points over the benchmark.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Federal Home Loan Banks♦	3bn	4.25#(i)	99.931	Apr 2002	0.075	+35(4¾%Mar01)	Goldman/Salomon SB
Toyota Motor Credit Corp	400	5.75	99.733R	Apr 2004	0.25R	+68(4¾%Feb04)	Deutsche/Merrill
LBW Capital Markets(a)	100	5.50	98.465R	Feb 2008	0.30R	+85(4¾%Feb04)	ABN Amro/Merrill
Unibanco♦	100	10.75#	100.00R	Apr 2000	0.60R	-	Chase Manhattan Intl
■ EUROS(e)							
Eurohypo(b)	2bn	(b1)	(b1)R	Apr 2009	0.15R	(b1)(Jan09)	Deutsche/DrKB/MSDW
Tokyo Electric Power Corp	1bn	4.375	99.738R	May 2009	0.35R	+59(3¾Jan09)	IBJ/Paribas/WestLB
BHW Bausparkasse‡	500	(c)	99.86R	Apr 2009	0.20R	-	Dresdner KB
AB Spintab(f)	500	4.375(s)	99.649R	Apr 2009	0.375R	+48(4¾-09)	Paribas
Morgan Stanley DW & Co‡	500	(d)	99.964R	May 2002	0.20R	-	Morgan Stanley DW
KBC Intl Finance NV(S)‡	300	(g)	99.778R	undated	0.625R	+120(Jan09)	ABN Amro
Banca Popolare di Brescia‡	250	(h)	99.95R	May 2001	0.08R	-	Caboto-Gruppo Intesa
Westfaelische Hypo‡	250	(j)	99.934	Aug 2000	0.05	-	SG
Bca Popolare di Bergamo‡	200	(k)	99.974	May 2002	0.175	-	Salomon Smith Barney
GECC(m)	100	3.50	99.03	Feb 2006	0.30	-	Warburg Dillon Read
■ STERLING							
Aggregate Industries plc	110	6.25#(i)	99.23R	Jul 2009	0.50R	+190(Dec08)	HSBC Mkts/Warburg DR
■ GREEK DRACHMA							
Commerzbank AG(n)‡	10bn	(n1)	99.96	Apr 2009	0.10	-	RBC DS Global Markets

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ♦Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with $500m. Plus 72 days accrued. b) Hypotheken Pfandbriefe. b1) Priced today 36-37bp over bunds. c) 5-mth Euribor +12½bp. d) 3-mth Euribor +18¾bp. e) Spread relates to German govt bonds unless stated. f) Spread re French govt bonds. g) 5% to 11/5/09, then 6-mth Euribor +250bp. h) 6-mth Euribor +12½bp. j) 3-mth Euribor 6¼bp. k) 3-mth Euribor +7½bp. § Long 1st coupon. m) Fungible with €250m. Plus 75 days accrued. n) Fungible with Dr15bn. Plus 19 days accrued. n1) 3-mth Athimid -45bp. s) Short 1st coupon. S) Subordinated.

OTE to raise $1bn in loan market

By Vincent Boland

OTE, the Greek telecommunications operator, is to raise $1bn in the syndicated loan market in the next few weeks partly to refinance the short-term borrowings it incurred in its $675m acquisition of a 35 per cent stake in Rom Telecom of Romania late last year.

OTE is the latest European telecoms group to tap the syndicated loan market. It follows Olivetti, Mannesmann and Vodafone, all of which have sought merger and acquisition financing in recent weeks, in what is proving to be a lucrative spell for lending banks despite concerns about the extent of their exposure to the telecoms sector.

Citibank and National Bank of Greece are leading the lending syndicate for the five-year OTE loan, a revolving credit facility expected to be priced at 30 basis points over Libor with a commitment fee of 15 basis points.

Bankers said the terms looked favourable for OTE, which is controlled by the Hellenic Republic. The company has the same rating – BBB from Standard & Poor's and Baa1 from Moody's – as the state but is paying a slightly higher margin.

The Greek government is planning to cut its stake in OTE further this year but is expected to retain a stake of 51 per cent. The loan is expected to have a "no change of control" clause and is expected to be launched within the next two weeks and completed by the end of May or early June.

OTE said last month it planned to invest $2.7bn in Rom Telecom over the next five years.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Apr 20	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	106.5362	4.74	-0.02	+0.07	-0.19	-0.24
	08/08	8.750	124.9256	5.32	-0.06	+0.04	-0.14	-0.34
Austria	03/01	5.250	104.5100	2.75	-0.04	-0.04	-0.32	-1.41
	01/08	5.000	107.4400	3.97	-0.03	+0.01	-0.11	-0.98
Belgium	03/01	5.000	104.0500	2.80	-0.02	-0.03	-0.27	-1.39
	03/09	3.750	97.1100	4.11	-0.03	+0.01	-0.08	-0.85
Canada	12/00	5.000	100.4822	4.68	+0.07	+0.06	-0.40	-0.29
	06/08	6.000	106.8000	5.06	+0.05	+0.16	-0.14	-0.24
Denmark	11/00	9.000	108.7800	3.09	-0.03	-	-0.28	-1.30
	11/09	6.000	115.1400	4.19	-0.02	+0.01	-0.15	-0.90
Finland	06/00	4.000	101.4800	2.68	-0.04	-0.06	-0.34	-1.14
	04/09	5.000	107.6300	4.06	-	+0.02	-0.08	-0.81
France	07/00	4.000	101.5000	2.63	-0.03	-0.05	-0.37	-1.51
	04/06	7.250	123.0400	3.46	-0.04	-0.01	-0.16	-1.21
	04/09	4.000	100.4200	3.95	-0.03	+0.01	-0.11	-0.95
	04/29	5.500	109.7700	4.87	-0.05	+0.02	-0.10	-0.53
Germany	05/01	5.000	104.4900	2.73	-0.04	-0.07	-0.27	-1.29
	01/06	6.000	114.2000	3.57	-0.05	-0.02	-0.18	-1.16
	01/09	3.750	99.3900	3.83	-0.03	+0.01	-0.10	-1.06
	07/28	4.750	98.7500	4.83	-0.05	+0.02	-0.10	-0.58
Greece	03/00	9.600	100.5300	9.09	-0.11	+0.14	+0.23	-0.61
	01/09	6.300	103.5000	5.82	-0.02	+0.02	+0.04	-2.58
Ireland	10/01	6.500	108.7000	2.83	-0.04	-0.07	-0.29	-2.29
	08/08	6.000	116.0100	3.91	-0.07	-0.02	-0.17	-1.16
Italy	07/01	4.500	103.4500	2.85	-0.04	-0.05	-0.26	-1.88
	07/03	4.500	105.0400	3.21	-0.05	-0.03	-0.21	-1.53
	05/09	4.500	103.6500	4.05	-0.03	-	-0.09	-1.00
	11/27	6.500	121.7000	5.05	-0.04	-0.01	-0.07	-0.49
Japan	12/00	6.900	111.1160	0.15	+0.01	-0.05	-0.07	-0.41
	12/03	4.100	115.7490	0.86	-0.04	-0.11	-0.21	-0.45
	06/08	1.800	103.5870	1.38	-0.06	-0.10	-0.30	-0.18
	08/18	2.300	99.9060	2.30	-0.04	-0.06	-0.28	-0.11
Netherlands	01/01	9.000	110.3900	2.72	-0.04	-0.08	-0.31	-1.42
	07/09	3.750	98.0200	3.99	-0.03	+0.01	-0.08	-0.88
New Zealand	02/01	8.000	105.6390	4.65	-0.05	-0.10	-0.24	-3.03
	07/09	7.000	109.9821	5.70	-0.06	+0.02	-0.08	-1.06
Norway	05/01	7.000	104.5700	4.85	-0.01	-0.01	-0.16	+0.27
	05/09	5.500	106.3500	4.66	-0.05	+0.01	-0.08	-0.95
Portugal	03/00	5.375	102.3300	2.72	-0.02	-0.07	-0.20	-1.80
	06/08	5.375	108.5800	4.10	-0.03	+0.02	-0.04	-0.90
Spain	01/01	5.000	103.9300	2.68	-0.05	-0.08	-0.28	-1.58
	07/08	6.000	107.3800	4.10	-0.04	+0.01	-0.27	-0.90
Sweden	05/00	10.250	107.2082	2.89	-0.02	+0.01	-0.21	-1.84
	05/08	6.500	117.4030	4.15	-0.04	+0.01	-0.13	-0.95
Switzerland	06/00	4.500	103.7200	1.13	-	-0.03	-0.30	-0.75
	01/08	4.250	115.9500	2.21	-0.03	+0.08	+0.04	-0.83
UK	11/01	7.000	104.9800	4.86	-0.02	+0.03	+0.12	-1.78
	12/03	6.500	107.6800	4.64	-0.04	+0.02	+0.09	-1.25
	12/09	5.750	110.6800	4.45	-0.06	+0.03	+0.01	-1.33
	12/28	6.000	125.4200	4.45	-0.06	+0.02	+0.01	-1.24
US	01/01	4.500	99.2400	4.95	-0.03	-0.01	-0.07	-0.85
	02/04	4.750	98.7526	5.04	-0.03	+0.06	-0.02	-0.84
	11/08	4.750	96.2656	5.16	-0.02	+0.05	-	-0.56
	02/29	5.250	96.0864	5.52	-0.02	+0.02	-0.02	-0.43

London closing. * New York mid-day. Source: Interactive Data/FT Information. Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Apr 20	Bid Yield	Spread vs Euros	Spread vs T-Bonds
Australia	5.34	+1.53	+0.18
Austria	4.00	+0.19	-1.16
Belgium	4.11	+0.30	-1.05
Canada	5.05	+1.24	-0.11
Denmark	4.17	+0.36	-0.99
Finland	4.06	+0.25	-1.10
France	3.94	+0.13	-1.22
Germany	3.81	-	-1.35
Greece	5.90	+2.09	+0.74
Ireland	3.94	+0.13	-1.22
Italy	4.09	+0.28	-1.07
Japan	1.49	-2.32	-3.67
Netherlands	3.94	+0.13	-1.22
New Zealand	5.69	+1.88	+0.53
Norway	4.69	+0.88	-0.47
Portugal	4.11	+0.30	-1.05
Spain	4.06	+0.25	-1.10
Sweden	4.21	+0.40	-0.95
Switzerland	2.43	-1.38	-2.73
UK	4.39	+0.58	-0.77
US	5.16	+1.35	-

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Apr 20	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB-	92.9500	9.90	-0.10	+1.25	+4.93
Poland	07/04	7.125	BBB-	104.0000	6.19	+0.08	-0.11	+1.15
Russia	06/07	10.000	n/a	35.3500	33.49	-0.21	-6.04	+28.38
■ LATIN AMERICA								
Argentina	02/27	9.750	BB	87.4000	11.22	+0.23	-0.31	+5.74
Brazil	05/27	10.125	B+	80.1000	12.74	+0.33	-1.94	+7.26
Mexico	05/26	11.500	BB	117.6000	9.66	+0.17	-0.51	+4.19
■ ASIA								
China	07/08	7.750	BBB+	104.3162	6.96	-0.08	-0.51	+1.87
Philippines	10/16	8.750	BB+	97.0000	9.10	-	-0.23	+3.81
Thailand	04/07	7.750	BBB-	103.5000	7.17	+0.03	-0.28	+2.06
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	102.9728	6.55	-0.08	-1.27	+1.64
South Africa	10/06	8.375	BB+	102.8429	7.90	-0.10	-0.84	+2.81
Turkey	08/07	10.000	B	94.7500	10.96	-0.05	-0.65	+5.85
■ BRADY BONDS								
Argentina	03/23	5.750	BB	71.7500	8.66	+0.03	-0.10	+3.45
Brazil	04/14	5.000	B+	68.5000	12.24	+0.58	-1.39	+6.99
Mexico	12/19	6.250	BB	80.3750	8.24	+0.08	-0.16	+2.90
Venezuela	03/20	6.750	B+	72.3750	9.90	+0.25	-0.86	+4.54

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information

BOND FUTURES AND OPTIONS

France

■ NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	96.20	96.29	+0.32	96.43	96.15	26,899	84,490
Sep	-	96.11	+0.32	-	-	-	-

■ LONG TERM EURO BOND OPTIONS (MATIF)

Strike Price	Calls May	Calls Jun	Calls Jul	Puts May	Puts Jun	Puts Jul
93	-	2.73	2.84	-	0.02	0.14
94	-	1.79	1.98	-	0.08	0.28
95	-	0.96	1.25	-	0.25	0.54
96	-	0.37	0.69	-	0.66	0.97

Est. vol. total, Calls 26 Puts 28 . Previous day's open int., Calls 7,250 Puts 4,906 .

Germany

■ NOTIONAL EURO BUND FUTURES (EUREX) €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	115.75	115.61	+0.07	115.87	115.56	510,948	597,909
Sep	115.72	115.62	+0.08	115.87	115.59	3,839	25,880

■ NOTIONAL EURO BUND (BOBL) FUTURES (EUREX) €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	109.64	109.66	+0.06	109.72	109.62	149,636	255,221

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	114.68	114.77	+0.27	114.92	114.62	11233	38559

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	98.93	99.07	+0.30	99.18	98.90	16,518	19,415

UK

■ NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		108.02	+0.20			0	0
Sep		108.02	+0.20			0	0

■ NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	117.30	117.39	+0.34	117.60	117.20	21125	79128
Sep		117.09	+0.34			0	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

■ LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
11650	1.42	2.01	0.44	1.33
11700	1.12	1.74	0.64	1.56
11750	0.84	1.50	0.86	1.82
11800	0.60	1.28	1.12	2.10
11850	0.45	1.08	1.49	2.40
11900	0.29	0.91	1.81	2.73

Est. vol total, Calls 610 Puts 1330. Previous day's open int. Calls 12361 Puts 11179

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	121-28	121-26	-	122-07	121-25	284,813	572,894
Sep	121-21	121-10	-0-01	121-21	121-10	5,079	41,841
Dec	-	120-24	-	-	-	23	4,238

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	134.70	134.62		134.70	134.55	1812	n/a
Sep		133.73				0	n/a

Euro

■ € BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	108.85	108.95	+0.91	108.85	108.85	1	20

■ NOTIONAL EFB SWAP FUTURES (LIFFE)* 5yr 4.0% €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		102.31	+0.19			0	214

■ NOTIONAL EFB SWAP FUTURES (LIFFE)* 10yr 4.5% €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		102.03	+0.42			0	387

* Traded on APT prior to listing on LIFFE CONNECT™ on 10/5/99. All open interest figs. are for previous day

INTEREST RATE SWAPS

Apr 20	Euro-€ Bid	Euro-€ Ask	£ Stlg Bid	£ Stlg Ask	SwFr Bid	SwFr Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	2.70	2.73	5.33	5.36	1.14	1.18	5.21	5.24	0.19	0.22
2 year	2.82	2.86	5.35	5.39	1.40	1.48	5.39	5.42	0.28	0.31
3 year	3.01	3.05	5.38	5.42	1.69	1.76	5.51	5.54	0.46	0.49
4 year	3.21	3.25	5.37	5.41	1.94	2.02	5.59	5.62	0.67	0.70
5 year	3.41	3.45	5.33	5.37	2.17	2.25	5.65	5.68	0.89	0.92
6 year	3.60	3.64	5.31	5.35	2.39	2.47	5.71	5.74	1.11	1.14
7 year	3.78	3.82	5.29	5.33	2.60	2.68	5.76	5.79	1.31	1.34
8 year	3.95	3.99	5.28	5.32	2.79	2.87	5.80	5.83	1.49	1.52
9 year	4.09	4.13	5.28	5.32	2.96	3.04	5.85	5.88	1.65	1.68
10 year	4.19	4.23	5.28	5.32	3.11	3.19	5.89	5.92	1.79	1.82
12 year	4.36	4.40	5.29	5.34	3.34	3.44	5.99	6.02	2.04	2.07
15 year	4.56	4.60	5.30	5.35	3.61	3.71	6.08	6.12	2.28	2.32
20 year	4.80	4.84	5.30	5.35	3.86	3.96	6.17	6.20	2.47	2.51
25 year	4.92	4.96	5.29	5.36	3.98	4.08	6.17	6.20	2.52	2.56
30 year	4.97	5.01	5.29	5.36	4.06	4.16	6.16	6.19	2.57	2.63

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor, £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor, Euro/Swiss Franc quoted on annual bond 30/360 basis against 6 month Euribor/Libor with the exception of the 1 year rate which is quoted against 3 month Euribor/Libor. Source: Intercapital Europe Limited.

US CORPORATE BONDS

Apr 19	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	07/02	7.25	AA-	104.5512	5.66	+0.04	-0.04	+5.66
NY Tel	08/25	7.00	A+	98.3967	7.13	+0.04	+0.08	+1.57
CWE	05/08	8.00	BBB	112.5386	6.17	+0.05	-	+0.96
■ FINANCIALS								
GECC	05/07	8.75	AAA	117.5240	5.98	+0.06	-	+0.77
Banc One	08/02	7.25	A	104.1433	5.83	+0.05	+0.02	+5.83
CNA Fin	01/18	6.95	A-	95.2528	7.42	+0.05	-0.09	+1.86
■ INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.0000	5.39	-0.14	-0.33	+0.91
Wal Mart	05/02	6.75	AA	103.7298	5.41	+0.05	-	+5.41
Dayton Hud	06/21	9.70	A-	132.4258	6.83	+0.05	+0.03	+1.27
■ AGENCIES								
FHLMC	04/07	7.14	N/A	108.1244	5.85	+0.06	+0.08	+0.64
SLMA	03/00	7.50	N/A	102.0018	5.15	+0.04	-0.02	+0.89
FNMA	02/16	8.95	N/A	131.3809	6.11	+0.04	+0.06	+0.55
FFCB	06/06	8.95	N/A	118.5263	5.74	+0.06	+0.05	+0.53
■ HIGH YIELD								
Stone Cont	02/01	9.88	B	101.7500	0.00	-	-	-
AK Stl	12/01	9.13	BB-	106.2500	0.00	-	-	-
Pacelia	06/04	10.75	B-	98.0000	0.00	-	-	-

NY latest. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest

Prime rate	7¾
Broker loan rate	6½
Fed.funds	4¾
Fed.funds at intervention	-

Treasury Bills and Bond Yields

One month	-	Two year	4.94
Two month	-	Three year	4.98
Three month	4.35	Five year	5.04
Six month	4.53	10-year	5.15
One year	4.65	30-year	5.52

INTERNATIONAL BONDS

Apr 20	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ $								
EIB	04/07	7.250	AAA	109.0759	5.80	-0.06	-0.03	+0.69
ABN Amro	06/07	7.125	AA-	104.4579	6.40	-0.07	+0.03	+1.29
Quebec	01/07	7.000	A+	105.6805	6.07	-0.06	+0.06	+0.96
Citicorp FRN	02/04	5.066	AA-	99.4286	5.20	-0.09	-0.07	+0.16
■ C$								
Bayer L-Bk	08/04	9.500	AAA	118.1734	5.45	+0.01	-0.22	+0.22
Toronto (M of)	05/04	8.500	AA+	113.3732	5.42	+0.01	-0.21	+0.19
Bell Canada	07/98	10.625	A+	101.1424	5.13	+0.03	-0.39	+1.27
Deutsche B FRN	09/02	5.875	AA+	100.9253	5.57	+0.02	-0.13	+0.51
■ £								
EIB	12/07	7.625	AAA	116.4400	5.20	-0.06	+0.05	+0.60
Dresdner Bk	12/07	7.750	AA-	111.6783	6.97	-0.06	+0.06	+1.37
British Gas	03/00	7.625	A+	101.7900	5.39	+0.01	+0.08	+0.68
Abbey Nat FRN	02/02	5.587	AA	99.9556	4.96	-0.04	+0.12	+0.20
■ SFR								
EIB	01/08	3.750	AAA	104.1859	3.19	-0.02	+0.05	+0.93
Brit Columbia	02/02	3.250	AA	104.0733	1.76	+0.01	-0.18	+0.23
Hydro-Quebec	05/01	8.750	n/a	108.8624	2.33	+0.01	-0.25	+1.02
Gen Elect.	09/01	1.280	n/a	99.7325	1.32	+0.01	-0.22	+0.01
■ YEN								
IBRD (World Bk)	03/02	5.250	AAA	114.2250	0.33	-0.01	-0.12	-0.01
Spain (Kingdom)	03/02	5.750	AA+	115.6419	0.35	-0.01	-0.13	+0.01
Cred Foncier	08/02	4.750	A	112.6482	0.84	-0.01	-0.09	+0.50
Italy (Rep of)	07/99	0.518	AA	100.0135	0.14	+0.08	-0.05	+0.02
■ A$								
IBRD (World Bk)	02/08	6.000	AAA	103.2678	5.52	-0.08	-0.16	+0.21
Nw Sth Wales Tr	05/06	6.500	n/a	105.3150	5.57	-0.05	-0.16	+0.36
S. Aus Gov Fin	06/03	7.750	AA	108.0756	5.53	-0.04	-0.18	+0.56
GMAC Aust	05/01	9.000	n/a	107.0832	5.31	-0.02	-0.26	+0.55

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Government Securities — UK Indices

Price Indices UK Gilts	Tue Apr 20	Day's chge %	Accrued interest	xd adj ytd	Total Return	Duration Yield	Duration Years	% Weight
1 Up to 5 years (15)	121.32	+0.11	2.61	2.25	1210.41	4.81	2.28	33.35
2 5-10 years (11)	178.41	+0.30	2.82	2.41	1339.04	4.63	5.81	29.56
3 10-15 years (7)	185.21	+0.49	2.41	2.85	1461.09	4.58	8.83	13.66
4 5-15 years (18)	174.71	+0.36	2.70	2.48	1374.03	4.61	6.70	43.21
5 Over 15 years (4)	232.25	+0.77	4.13	1.23	1587.35	4.55	11.82	22.85
6 Irredeemables (4)	324.15	+1.21	4.47	2.21	1894.06	4.67	21.82	0.79
7 All stocks (41)	165.69	+0.36	2.86	2.27	1360.72	4.61	6.49	100.00

Index-linked	Tue Apr 20	Day's chge %	Accrued interest	xd adj ytd	Total Return	% Weight
1 Up to 5 years (2)	225.67	+0.00	1.53	1.26	1178.50	14.67
2 Over 5 years (9)	265.56	+0.01	1.23	2.74	1445.75	85.33
3 5-15 years (5)	247.04	+0.02	1.26	2.32	1338.91	42.73
4 Over 15 years (4)	282.88	+0.00	1.17	3.20	1545.88	42.59
5 All stocks (11)	258.28	+0.01	1.27	2.48	1407.03	100.00

Yield Indices	Apr 20	Apr 19	Yr ago	Yield Indices	Apr 20	Apr 19	Yr ago
5 yrs	4.70	4.75	6.07	Irred †	4.67	4.72	5.83
10 yrs	4.59	4.64	5.80	Med. 15 yrs	4.58	4.64	5.74
15 yrs	4.57	4.63	5.73	High 15 yrs	4.67	4.72	5.83
20 yrs	4.56	4.63	5.72				

Coupon Bands: Medium: 8%-10¾%, High: 11% and over. † Flat yield. ytd Year to date.

Real yield	Inflation 0% Apr 20	Inflation 0% Dur yrs	Inflation 0% Apr 19	Inflation 0% Yr ago	Inflation 5% Apr 20	Inflation 5% Dur yrs	Inflation 5% Apr 19	Inflation 5% Yr ago
Up to 5 yrs	3.11	3.19	3.03	3.61	2.21	3.20	2.26	2.73
Over 5 yrs	1.89	13.31	1.87	3.02	1.67	13.41	1.69	2.79
5-15 yrs	1.93	9.61	1.90	3.14	1.63	9.65	1.65	2.79
Over 15 yrs	1.86	17.09	1.85	2.97	1.70	17.15	1.71	2.79
All Stocks	1.94	11.75	1.92	3.03	1.70	11.88	1.71	2.79

FT Fixed Interest Indices

	Apr 20	Apr 19	Apr 16	Apr 15	Apr 14	Yr ago	High*	Low*
Govt. Secs. (UK)	111.46	110.95	110.90	111.03	114.12	105.27	117.17	93.31
Fixed Interest	154.83	154.39	154.44	154.83	155.47	142.49	158.45	115.32

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UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts" (Lives up to Five Years)							
Treas 10½pc 1999		10.48	5.87	100.4800	-.0200	103.82	100.40
Treas 6pc 1999		3.96	4.98	100.3200	+.0100	100.90	98.64
Conv 10¼pc 1999		9.85	4.99	103.0200	+.0100	105.38	103.61
Treas 8½pc 2005		6.96	4.60	121.8300	+.2900	125.31	113.85
Conv 9½pc 2005		7.38	4.66	132.0800	+.4000	136.21	123.08
Treas 7¾pc 2006		5.92	4.74	118.9300	+.3500	122.40	110.47
Treas 8pc 2002-6		7.30	4.68	109.5700	+.1200	111.73	104.06
Treas 7½pc 2006		6.36	4.71	118.6800	+.3900	121.82	109.33
Treas 11¾pc 2003-7		9.52	4.33	123.4100	+.1400	126.29	119.81
Treas 8½pc 2007		6.75	4.73	125.9000	+.4000	129.86	116.89
Treas 7¼pc 2007		6.11	4.69	118.5700	+.4300	122.55	109.22
Index-Linked	(b)						
2½pc '99		1.16	3.10	198.3200	-.0100	198.18	191.35
2½pc '01	(78.3)	2.46	2.95	203.7600	-.0100	206.40	197.58
2½pc '03	(78.8)	2.07	2.36	205.6300	-.0200	207.83	195.37
4⅜pc '04	(135.6)	1.71	1.94	133.8300xd	—	134.77	128.23
2pc '06	(69.5)	1.43	1.60	236.3800	—	239.80	211.56
2½pc '09	(78.8)	1.57	1.70	218.5700	-.0800	221.45	192.43
2½pc '11	(74.6)	1.65	1.77	233.5800	-.0100	235.82	201.83
2½pc '13	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Bloated US deficit fails to revive euro

MARKETS REPORT

By Christopher Swann and Alan Beattie

After hitting a lifetime low earlier this week, trading in the euro against the dollar was relatively subdued yesterday despite news of a record US trade deficit.

The release of data showing the US trade deficit swelling to a record $19.4bn in February, together with the German Ifo survey registering a modest rise in confidence, failed to breathe life in the euro.

The European currency traded sideways, closing at $1.066 at the end of the London session. It also finished the day little changed against *sterling and the yen.*

■ Rumours have circulated *in the* markets that Wim Duisenberg, European Central Bank president, has been preparing a bear trap. His nonchalance over the level of the euro have added to the currency's woes in recent days, but some have wondered whether he could be preparing to sting the markets with a surprise intervention.

However, fully paid-up conspiracy theorists remained in a minority.

"Any *move* to punish the market in this way would seriously undermine ECB credibility and diminish the effectiveness of its verbal interventions," said Stewart Newnham, currency strategist at Commerzbank in London. "Rumours of this kind are born of the lack of transparency in ECB decision making." Analysts at *the* economic consultancy 4Cast said thoughts of intervention *would grow if the euro drew* closer to $1.05 against the dollar. But they thought the ECB would remain on the sidelines all the way down to parity.

■ The Australian dollar *paused for breath yesterday* after approaching February's nine month peak of $0.6545.

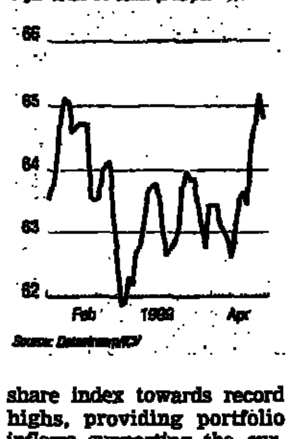
A dip in commodity prices yesterday knocked some of the exuberance out of the bulls, with aluminium and zinc prices edging lower.

But some analysts argued that the upswing was far from exhausted. A fad *for commodity currencies, growing* signs of a rebound in Asia and the weakness of the euro, they said, would continue to underpin an upward trend.

David Bloom, currency strategist at HSBC in London, said that the currency would also benefit from Australia's wealth of cyclical *shares. "The return to vogue* of these stocks has helped push the Australian all share index towards record highs, providing portfolio inflows supporting the currency," he said.

Australian dollar

Against the US dollar (USc per A$)



Source: Datastream/ICV

HSBC is forecasting a level of $0.67 cents by the end of the year and $0.70 by the middle of 2000.

■ Sterling gained ground *against the dollar yesterday,* lifted by news of the record US trade deficit.

Against the dollar sterling crept up from $1.611 in early London trading to close at $1.616. It was unchanged against the euro.

Markets shrugged off a rise in RPIX inflation, which *spiked* up to 2.7 per cent in March from 2.4 per cent in February because of budget tax increases.

David Bloom said the strength of sterling indicated confidence in Britain's economic performance. "In old money terms sterling is heading back to the DM3.0 level," he said.

"This reflects the prospect of a perfect landing followed by credible, non-inflationary growth and is a sign that interest rate cuts can't keep a good currency down," Mr Bloom added.

■ A member of the Swiss National Bank's board said yesterday that stories about *carry trades* affecting the currency were exaggerated.

The Swiss franc has gained market attention recently as an ideal funding vehicle for the infamous carry, less volatile than the yen but with interest rates *close to zero and a central* bank continuing to pump liquidity into the economy.

But yesterday Bruno Gehrig, a member of the SNB's board, denied that there was a large volume of outstanding Swiss franc carry trades and that they had the potential to disrupt the currency. He reiterated the familiar view that the *currency* was at an appropriate level for the Swiss economy.

The Swissie was little changed against its main currency partners yesterday.

■ POUND IN NEW YORK

Apr 20	— Latest —	— Prev. close —
£ spot	1.6135	1.6120
1 mth	1.6129	1.6115
3 mth	1.6124	1.6110
1 yr	1.6128	1.6112

■ OTHER CURRENCIES

Apr 20	£	$
Czech Rp	57.2789 - 57.3738	35.4480 - 35.4880
Hungary	381.426 - 381.865	236.060 - 236.280
Iran	4850.40 - 4847.40	3000.00 - 3000.00
Kuwait	0.4930 - 0.4934	0.3051 - 0.3052
Peru	5.3935 - 5.4001	3.3380 - 3.3400
Poland	6.4713 - 6.4834	4.0050 - 4.0100
Russia	40.3950 - 40.7110	25.0000 - 25.1800
U.A.E.	5.9343 - 5.9387	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Apr 20		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	20.8706	-0.0292	612 - 800	20.9127	20.7822	20.821	2.8	20.7347	2.8	20.3498	2.5	102.2
Belgium*	(BFr)	61.1847	-0.0854	571 - 122	61.3080	60.9250	61.0385	2.8	60.7865	2.6	59.6578	2.5	101.8
Denmark	(DKr)	11.2729	-0.0166	654 - 804	11.2969	11.2289	11.2505	2.4	11.2121	2.2	11.0376	2.1	104.7
Finland*	(FM)	9.0181	-0.0126	140 - 221	9.0360	8.9800	8.9967	2.8	8.9594	2.8	8.7931	2.5	80.4
[illegible]													

Rates for Apr 20. [illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Apr 20		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria*	(Sch)	12.9128	-0.0530	108 - 144	12.9338	12.8794	12.8865	2.4	12.8374	2.3	12.5958	2.5	101.8
Belgium*	(BFr)	37.8548	-0.1551	494 - 601	37.9170	37.7570	37.7784	2.4	37.6344	2.3	36.9261	2.5	101.6
Denmark	(DKr)	6.9745	-0.0291	720 - 770	6.9859	6.9589	6.9631	2.0	6.9417	1.9	6.832	2.0	103.7
Finland*	(FM)	5.5796	-0.0229	787 - 802	5.5886	5.5651	5.5682	2.4	5.547	2.3	5.4426	2.5	79.5
France*	(FFr)	6.1555	-0.0252	546 - 563	6.1655	6.1396	6.1431	2.4	6.1197	2.3	6.0045	2.5	104.1
[illegible]													

WORLD INTEREST RATES

MONEY RATES

Apr 20	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.50	3.00
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	5	[illegible]	-	4.50	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	[illegible]	5	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	4.75	4.76	4.80	4.92	-	-	-
Euro Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
BBA Euro Libor	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
Euro Euribor	-	2.594	2.610	2.628	2.700	-	-	-
EONIA	2.51	-	-	-	-	-	-	-
EURONIA	2.4685	-	-	-	-	-	-	-

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Ds).

INTERNATIONAL CURRENCY RATES

Apr 20	Short term	7 days notice	One month	Three months	Six months	One year
Euro	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	5 - [illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Apr 20		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	€
Belgium	(BFr)	100	18.42	16.26	4.848	1.952	4800	5.463	20.52	497.0	412.5	22.12	3.971	1.634	3.831	2.642	312.4	2.479
[illegible]																		

■ D-MARK FUTURES (CME) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5457	0.5467	+0.0011	0.5482	0.5456	6,583	33,859
Sep	-	0.5498	+0.0010	0.5499	-	9	1,248
Dec	-	0.5521	-	-	-	41	137

■ SWISS FRANC FUTURES (CME) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6689	0.6686	+0.0008	0.6717	0.6673	13,887	69,789
Sep	-	0.6758	+0.0010	0.6756	0.6745	4	311
Dec	-	0.6824	+0.0011	0.6824	-	10	14,0,000

■ JAPANESE YEN FUTURES (CME) Yen 12.5m per Yen 100

[illegible]

■ STERLING FUTURES (CME) £62,500 per £

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

Apr 20	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible] - 5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	-	-
Treasury Bills	-	-	[illegible]	5 - [illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	-	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible] - 5	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 5¼ per cent from Apr 8, 1999

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Mar 12, 4.8907pc. ECGD fixed rate Stlg. Export Finance. Make up day Mar 31, 1999. Agreed rate for period Apr 26, 1999 to May 25, 1999, Scheme III 6.55pc. Reference rate for period Feb 27, 1999 to Mar 31, 1999, Schemes IV & V 5.416pc. Finance House Base Rate 5.5pc for Apr 1999.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.840	94.860	+0.020	94.870	94.840	14061	178795
Sep	94.870	94.900	+0.050	94.900	94.860	28195	184737
Dec	94.620	94.685	+0.065	94.700	94.620	13724	147344
Mar	94.690	94.745	+0.055	94.760	94.690	16684	141038
Jun	94.620	94.680	+0.050	94.670	94.620	9688	118634

Also traded on APT. All Open Interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
94750	0.150	0.250	0.240	0.040	0.100	0.305
94875	0.075			0.090		
95000	0.035	0.115	0.140	0.175	0.215	0.455
95125	0.020			0.285		
95250	0.010	0.050	0.080	0.400	0.400	0.645
95375	0.005			0.520		

Est. vol. total, Calls 10249 Puts 5950. Previous day's open int., Calls 487882 Puts 570536

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

[illegible]

■ THREE MONTH EURODOLLAR (CME) $1m points of 100%

[illegible]

■ US TREASURY BILL FUTURES (CME) $1m per 100%

[illegible]

■ THREE MONTH EUROMARK FUTURES (MATIF) / THREE MONTH EUROMARK FUTURES (LIFFE) / EURO LIBOR / EURIBOR OPTIONS / EURO SWISS FRANC FUTURES / EUROYEN FUTURES / EURO SWISS FRANC OPTIONS

[illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	5.25	Exeter Trust Limited	5.25	Smith & Williamson	5.25
Allied Irish Bank (GB)	5.25	●Robert Fleming & Co	5.25	Sun Bank	5.25
●Henry Ansbacher	5.25	Habib Bank AG Zurich	5.25	TSB	5.25
Banco Bilbao Vizcaya	5.25	Heritable & Gen Inv Bk	5.50	United Bank of Kuwait	5.50
Bank of Cyprus	5.25	C. Hoare & Co	5.25	Unity Trust Bank Plc	5.25
Bank of Ireland	5.25	●SG Hambros Bank & Trust	5.25	Whiteaway Laidlaw	5.25
Bank of India	5.25	Hongkong & Shanghai	5.25	Yorkshire Bank	5.25
Bank of Scotland	5.25	Investec Bank (UK) Ltd	5.25		
Barclays Bank	5.25	Julian Hodge Bank	5.25	● Members of London Investment Banking Association	
Brit Bk of Mid East	5.25	●Leopold Joseph & Sons	5.25		
●Brown Shipley & Co Ltd	5.25	Lloyds Bank	5.25		
Citibank NA	5.25	Midland Bank	5.25		
Clydesdale Bank	5.25	NatWestminster	5.25		
The Co-operative Bank	5.50	●Rea Brothers	5.25		
Coutts & Co	5.25	Royal Bk of Scotland	5.25		
Cyprus Popular Bank	5.25	Scottish Widows Bank	5.50		
Duncan Lawrie	5.25	●Singer & Friedlander	5.25		

OECD cuts agricultural forecasts

By Michael Smith in Brussels

The Organisation for Economic Co-operation and Development yesterday lowered its forecast for agricultural prices and trade to 2004 and warned governments against intervening to compensate farmers for depressed markets.

In its annual agricultural outlook, the OECD suggested many agricultural markets would remain depressed for the next two years, and a recovery before 2004 would fail to lift prices in sectors including maize and wheat to the levels experienced from 1993 to 1997.

The report was completed before the European Union finalised its farm aid reform last month but it will strengthen the belief among economists that the EU will fail in its aim to reduce cereal prices to world levels in the next few years.

Matching cereal prices is important to the EU because it would enable it to export without constraint from the World Trade Organisation.

The OECD said low farm prices would continue in many sectors for a couple of years, and in some cases beyond, but would then ease as supply adjustments kicked in.

However, it said demand for products, and therefore prices, was unlikely to reach levels projected last year.

It warned that increased support to help farmers' weather-related difficulties may slow market recovery.

Despite disciplines introduced by world trade negotiations earlier this decade, "there is a danger of increased use of export assistance programmes by the main exporting countries, and this can further depress world prices and distort trade. A return to better global market prospects can best be assured through well-functioning markets.

"The temptation to interfere with markets or retreat behind trade barriers in response to current difficulties should be resisted."

The report precedes talks this year under the World Trade Organisation aimed at liberalising world trade in services and farm products.

There are fears that the farming depression, which has hit sectors including cereals and meat, will weaken government resolve for reform and prompt some countries to rein back on commitments already made to open up trade.

The US last year provided a one-off support package worth $6bn to farmers, although it insisted its aid was within WTO rules. And while the EU's farm reforms last month will lead to big cuts in internal prices of beef, cereals and milk, the changes were less radical than the European Commission had wanted, particularly on cereals.

The OECD report predicted increases in farm trade by organisation members in spite of the less buoyant outlook. Net exports in poultry are forecast to grow 63 per cent by 2004, compared with the average of 1993-97, cereals 17 per cent and cheese 26 per cent.

Crude oil steady ahead of US data

MARKETS REPORT

By Robert Corzine, Gillian O'Connor and Paul Solman

Crude oil prices were generally steady yesterday as markets awaited the latest inventory figures from the US.

The June Brent futures contract was quoted at $15.94 a barrel in late trading on London's International Petroleum Exchange, unchanged from Monday's close.

In earlier trading June Brent hit an intra-day high of $15.95 a barrel, before settling back.

Activity on the IPE was heavily influenced by pre-expiry trading of the front month light crude contract on the New York Mercantile Exchange.

Base metal prices retreated slightly on the London Metal Exchange yesterday, failing to provide any support for the recent sharp rise seen in mining share prices.

Copper bulls are still hoping for confirmation of the hoary rumour that BHP will close some of its US production, and is trying to reach a deal with local rivals.

Rhona O'Connell of T. Hoare & Co reported that, although "no company is prepared to comment [on the rumour that BHP has approached Phelps, Cyprus and Asarco] ... the consensus ... is that the San Manuel smelter is worth having but the mines are of less value."

Cocoa prices fell again yesterday on the London International Financial Futures and Options Exchange.

The most actively traded May contract closed down £10 at £740 a tonne, though above the day's low of £736.

May coffee was also weaker, closing $11 lower at $1,479 a tonne.

Zimbabwe pins hopes on tobacco sales

By Tony Hawkins in Harare

Both government and business are hoping Zimbabwe's flue-cured tobacco auctions starting today will help stave off another slump in the Zimbabwe currency.

The outlook for the 1999 sales is gloomy, however, due to sluggish global demand, manufacturer determination to cut costs and a smaller than normal crop because of excessive rains early in the year.

Tobacco, the country's top export, accounting for 20–35 per cent of total earnings, is a casualty of the world economic slowdown and anti-smoking legislation and litigation, especially in the US.

The price on the Harare auction floors – arguably the world's most free tobacco market – fell from almost $3 a kilogram in 1996 to $1.7 last year.

With consumption forecast to grow only sluggishly, if at all, in 1999 while output falls some 3 per cent prices are expected to remain close to last year's levels.

Brazil is set to build market share at the expense of international competitors, including Zimbabwe. Not only has its production risen by a third to 400m kg from 313m kg last year, but devaluation of the Real has made it an even lower-cost supplier than normal.

Zimbabwe, which began 1999 with a stockpile of 150m kg, some 23 per cent higher than a year ago, has grown a small crop estimated at 185m kg, down 16 per cent on last year.

Industry sources say quality is variable, with a large proportion of excellent tobacco, but demand for higher quality, more costly leaf is likely to be subdued this year, resulting in a slightly lower average price over the season.

The consensus forecast is for an average price of around 165 cents a kg, which would give growers a gross income of some $305m, down 18 per cent from last year and the lowest since 1990.

Growers who had threatened a boycott of the auctions in protest against a 10 per cent turnover tax on tobacco sold from the floors have abandoned their plans following official promises that the tax will be eased.

The "tax-on-tax" element is to be dropped, allowing growers a tax credit for income tax purposes, though the levy remains 10 per cent.

Despite this, the sales are likely to start slowly. Growers learned an important lesson last year when the steep devaluation of the Zimbabwe dollar during the sales meant those who sold late earned twice as much as early sellers, despite a very similar US dollar price.

Since most analysts expect the Zimbabwe dollar to resume its slide over the next six months, farmers are likely to delay deliveries to the floors in hopes of getting higher local currency prices.

They are likely to need them. The Zimbabwe Tobacco Association, which represents growers, says farm costs have risen 60 per cent a year in the last two years. At the current rate of Z$38 to the US dollar, an average price of 165 cents a kg would give a local price of Z$62.70, some 80 per cent higher than last year.

But average yields are down because of the weather, inflation is 53 per cent and rising, farm workers are demanding big wage increases, while interest rates, currently 45 per cent, are also set to rise. Margins will be squeezed and another year of reduced profits could force the less successful growers out of the industry.

Rubber trade organisation meets in search for a future

Industry insiders say there is little hope that Inro can survive the withdrawal of two of its leading members, writes **Paul Solman**

Rubber producers are meeting in Kuala Lumpur this week in the latest attempt to thrash out a future for the International Natural Rubber Organisation (Inro).

The organisation, which includes the world's leading producers and consumers, is the last surviving global commodity agreement outside the oil industry, but it is on the verge of collapse.

Thailand and Malaysia, the biggest and third biggest producers, have announced their intention to withdraw from Inro, criticising it for failing to support the rubber market effectively.

Along with most other commodities, natural rubber prices have tumbled in the past two years, amid booming production and the downturn in Asia.

Growth in consumption slowed to 2 per cent last year from 6 per cent in 1997, according to the International Rubber Study Group. Competition from synthetic rubber has also hit prices.

Inro's daily market indicator, a composite of the spot prices in the main markets, was 153 Malaysian cents a kilogram yesterday. At the beginning of last year it was more than 230 cents.

Inro was set up in 1980 for the benefit of producers and consumers. Producing members – Thailand, Indonesia, Malaysia, Ivory Coast, Nigeria and Sri Lanka – were looking for higher prices. Consumers such as the US, Japan, China, and European countries were looking for market stability.

Contributions from members gave Inro the funds to intervene in the market, buying rubber when prices were low, selling when moved higher.

However, as prices fell, Malaysia and Thailand became disenchanted, suggesting Inro's price support mechanism was failing.

Last October, Malaysia gave the required one year's notice that it would quit Inro, with Thailand following suit in February.

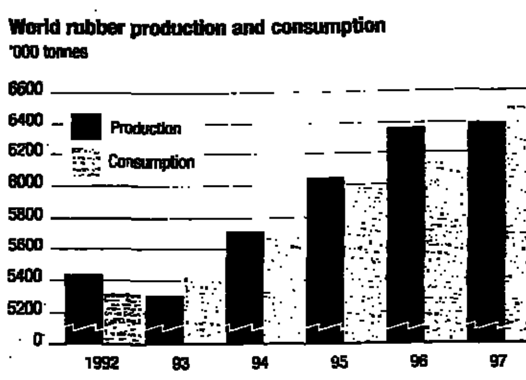
This week's meeting in Kuala Lumpur will discuss whether Inro can continue without Malaysia and Thailand. Industry insiders think not, as the two countries together account for about half the world's natural rubber production.

"Without the financial contributions from Malaysia and Thailand, Inro simply can't afford to intervene in the market, so there is no reason for it to exist," an analyst said yesterday.

Traders say prices have drifted in recent months as Inro has been unable to afford to enter the market because of lack of funds.

Yesterday's price of 152 Malaysian cents was well below the 172 cents at which Inro normally intervened to buy rubber.

Meanwhile, Malaysia plans to withhold rubber from the export market and limit imports in an effort to prop up prices received by its producers, most of which are smallholders.



Source: International Rubber Study Group

Thailand also plans controls on its domestic market, though traders are sceptical that such proposals will help.

Indonesia, the second largest natural rubber producer, remains committed to Inro but its contributions to the organisation's funds would be a heavy financial burden without help from Malaysia and Thailand.

"Many consumers, such as the US and Japan, are still behind Inro because it helps provide stability in the rubber market and enables them to plan their consumption," a trader said.

If Inro is coming to an end, the next question is what will happen to the market without it. Analysts are warning that releasing Inro's rubber stocks will further erode prices. "Prices seem to have bottomed at the moment, and news that Inro is to be wound up is unlikely to have a dramatic effect on prices in the short term," an industry insider said yesterday.

However, the longer term is likely to see increasing volatility, with prices falling further, traders said.

"It's likely that Inro will attempt to delay its decision until its next meeting in July, in an effort to try to get Malaysia and Thailand back on board. But their continuing as members is a forlorn hope," a trader said.

"It's not a question of whether Inro will be wound up, but how."

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1294-5	1316-7
Previous	1302-3	1322-3
High/low		1325/1312
AM Official	1301-1.5	1322.5-23.0
Kerb close		1314-5
Open int.	n/a	
Total daily turnover	98,029	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1170-5	1190-5
Previous	1175-80	1196-98
High/low		1200/1191
AM Official	1175-77	1195-95.5
Kerb close		1191-2
Open int.	n/a	
Total daily turnover	3,617	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	527-8	531-1.5
Previous	528.5-9.5	532-3
High/low		536/529
AM Official	532-33	535-35.5
Kerb close		528-9
Open int.	n/a	
Total daily turnover	15,935	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	5160-70	5240-45
Previous	5230-40	5310-15
High/low		5330/5230
AM Official	5180-85	5260-65
Kerb close		5245-50
Open int.	n/a	
Total daily turnover	29,006	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5440-50	5455-60
Previous	5430-40	5440-45
High/low		5460/5440
AM Official	5435-40	5440-45
Kerb close		5440-45
Open int.	n/a	
Total daily turnover	15,684	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1024-5	1044-5
Previous	1035.5-6.5	1054.5-5.0
High/low		1054/1039
AM Official	1024-24.5	1044-45
Kerb close		1038-9
Open int.	n/a	
Total daily turnover	23,426	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1516.5-8.5	1548-9
Previous	1504.5-5.5	1534-5
High/low		1558/1530
AM Official	1509-10	1538-39
Kerb close		1533-4
Open int.	n/a	
Total daily turnover	116,834	

■ LME AM Official £/$ rate: 1.6173
LME Closing £/$ rate: 1.6135

Spot: 1.6145 3 mths: 1.6135 6 mths: 1.6134 9 mths: 1.6138

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	68.40	-5.40	69.25	68.40	706	758
May	68.65	-1.45	70.40	68.40	15,140	27,478
Jun	69.15	-1.25	70.10	68.90	185	2,217
Jul	69.55	-1.25	71.20	69.25	8,045	18,613
Aug	69.95	-1.30	70.80	69.70	54	1,563
Sep	70.30	-1.35	71.50	70.10	228	5,553
Total					24,548	70,076

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close			
Opening			
Morning fix			
Afternoon fix			
Day's High			
Day's Low			
Previous close	283.50-284.00		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month		6 months	
2 months		12 months	
3 months			

Silver Fix	p/troy oz.	US cts equiv.
Spot		
3 months		
6 months		
1 year		

Silver Lending Rates

1 month		6 months	
2 months		12 months	
3 months			

Gold Coins	$ price	£ equiv.
Krugerrand	285-288	
New Sovereign	67-71	

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	284.4	-0.4	284.8	284.8	115	185
May	285.1	-0.4			47	47
Jun	285.9	-0.4	287.0	285.6	15,556	136.4k
Aug	287.9	-0.4	288.7	287.7	116	10,189
Oct	289.8	-0.4	290.6	289.9	43	3,911
Dec	291.7	-0.4	292.7	291.5	106	15,541
Total					16,060	197,445

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	363.0	-2.3	366.0	366.0	6	54
Jul	364.0	-2.8	368.5	363.0	937	9,596
Oct	365.3	-2.8	-	-	162	1,379
Jan	366.0	-2.8	-	-	1	140
Total					944	11,288

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	385.05	+3.85	387.00	382.00	161	2,703
Sep	380.05	+2.85	378.00	378.00	2	257
Dec	373.05	+2.85	-	-	-	126
Mar	370.05	+2.85	-	-	-	15
Total					161	3,101

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	514.1	-2.3	-	-	14	180
May	512.5	-2.5	518.0	510.0	23,217	30,228
Jul	515.0	-2.4	521.0	512.0	4,153	27,934
Sep	516.6	-2.3	523.0	514.0	160	6,358
Dec	518.2	-2.3	524.0	515.0	708	10,655
Jan	517.6	-2.3	-	-	-	16
Total					28,732	84,037

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
May	18.08	+1.84	18.17	17.71	62,509	43,784
Jun	17.74	-0.06	17.75	17.40	87,297	168.9k
Jul	17.55	-0.08	17.59	17.29	19,118	80,399
Aug	17.36	-0.18	17.38	17.13	7,917	41,274
Sep	17.12	-0.26	17.22	16.95	4,560	25,433
Oct	16.92	-0.26	16.92	16.76	2,413	22,462
Total					203,118	618,398

■ CRUDE OIL IPE ($/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	15.94	-	15.95	15.64	22,036	116.1k
Jul	15.75	-0.17	15.77	15.50	4,483	50,647
Aug	15.57	-0.16	15.57	15.41	2,274	20,410
Sep	15.43	-0.13	15.45	15.30	1,241	13,419
Oct	15.35	-0.09	15.35	15.27	1,151	7,828
Nov	15.24	-0.10	15.26	15.18	826	5,581
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
May	43.50	-1.42	43.75	42.90	16,617	34,155
Jun	43.90	+0.20	44.15	43.40	11,957	31,784
Jul	44.35	+0.23	44.50	43.90	3,373	19,654
Aug	44.75	+0.23	44.95	44.50	2,021	17,725
Sep	45.50	+0.43	45.75	45.45	650	10,283
Oct	46.15	+0.43	46.25	46.10	69	6,352
Total					37,447	174,321

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	131.75	+5.50	132.25	130.50	8,381	38,871
Jun	132.75	-	133.75	132.00	3,671	24,918
Jul	134.25	+0.25	135.00	134.00	1,517	11,669
Aug	135.50	-	136.25	135.50	181	8,434
Sep	137.25	+0.25	137.75	137.00	186	7,525
Oct	138.75	-	139.25	138.50	108	3,562
Total					14,580	143,385

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
May	9.230	+0.20	9.240	9.230	65	2,290
Jun	9.190	-	-	-	-	1,740
Total					n/a	n/a

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
May	2.145	+0.293	2.189	2.135	51,008	59,169
Jun	2.180	+0.011	2.220	2.170	23,281	37,669
Jul	2.205	+0.002	2.230	2.195	5,504	22,636
Aug	2.220	+0.003	2.235	2.207	3,150	18,502
Sep	2.230	+0.003	2.240	2.215	3,074	20,147
Oct	2.250	+0.016	2.265	2.245	2,328	15,687
Total					[illegible]	[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
May	52.85	-0.59	53.55	52.50	14,647	35,722
Jun	53.20	-0.49	53.85	52.80	8,095	28,495
Jul	53.15	-0.39	53.65	52.75	2,040	20,573
Aug	52.55	-0.42	52.95	52.40	671	8,584
Sep	51.70	-0.32	51.70	51.40	706	6,276
Oct	[illegible]	[illegible]	-	-	13	2,673
Total					[illegible]	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	76.90	+0.10	77.25	76.60	153	1,621
Jul	78.00	+0.20	78.35	77.60	128	2,941
Sep	75.00	+0.20	75.00	75.00	5	168
Nov	77.10	+0.60	77.10	76.75	169	3,156
Jan	79.00	+0.50	-	-	-	635
Mar	80.85	+0.85	-	-	-	724
Total					455	8,584

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	258.50	+6.25	259.75	252.25	4,662	28,477
Jul	269.00	+5.75	270.50	263.25	18,540	64,355
Sep	279.50	+5.75	280.50	276.00	1,012	7,140
Dec	294.75	+6.50	295.00	289.75	2,384	17,931
Mar	304.00	+6.00	305.00	301.50	162	3,909
May	310.00	+5.00	309.00	308.00	5	20
Total					26,866	122,230

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	224.00	+3.50	224.75	220.50	16,887	77,579
Jul	229.75	+3.50	230.00	226.25	22,101	124,776
Sep	236.25	+3.75	236.50	234.00	742	27,793
Dec	244.50	+3.50	245.00	241.25	10,650	88,917
Mar	253.75	+3.25	254.25	250.50	645	15,068
May	258.25	+3.50	258.25	257.00	38	1,416
Total					51,168	341,796

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	75.25	-	-	-	-	97
Sep	73.75	-	-	-	-	45
Nov	75.75	-	75.75	75.75	10	437
Jan	77.75	-	-	-	-	20
Mar	79.75	-	-	-	-	-
Total					10	599

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	495.50	-	496.50	488.00	11,401	42,624
Jul	504.75	+16.75	506.00	497.50	21,426	58,081
Aug	507.75	+10.50	509.00	502.00	206	15,362
Sep	510.00	+9.75	511.00	505.00	498	8,000
Nov	519.75	+17.00	520.00	512.75	2,918	39,489
Jan	530.25	+18.00	530.00	527.00	44	2,450
Total					36,531	169,797

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
May	20.08	-	20.15	19.15	9,049	26,352
Jul	20.37	+1.22	20.45	19.80	10,308	42,759
Aug	20.53	+1.01	20.55	20.02	1,174	9,301
Sep	20.60	+0.90	20.72	20.12	43	8,282
Oct	20.75	+0.87	20.83	20.70	406	6,212
Dec	21.00	+1.05	21.06	20.50	417	23,065
Total					21,968	134,038

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
May	134.3	-0.6	136.2	134.0	5,720	32,677
Jul	136.2	-0.8	138.2	135.9	4,889	33,267
Aug	137.5	-0.8	139.5	137.5	417	11,949
Sep	139.5	-0.5	141.0	139.2	259	6,794
Oct	140.6	-0.3	141.8	140.2	486	5,607
Dec	143.0	-0.2	146.0	143.3	1,032	17,172
Total					12,803	112,276

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	170.0	-	-	-	-	66
Jun	180.0	-	-	-	-	-
Nov	75.0	-	-	-	-	-
Mar	100.0	-	-	-	-	-
Apr	124.5	+5.5	123.1	120.0	32	320
Total					32	386

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	930	-10	930	930	15	1,005
May	930	-10	955	940	13	380
Jun	880	-10	880	880	1	4
Jul	880	-10	885	860	12	559
Oct	990	-	-	-	-	435
Total					41	2,486

	Close	Prev
BFI	[illegible]	[illegible]

PULP AND PAPER

■ POLPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	469.50	-1.00	471.00	471.00	10	372
Sep	488.00	-	-	-	1	172
Total					19	746

FUTURES DATA
All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	740	-10	752	736	2,561	32,684
Jul	763	-9	774	758	1,634	20,753
Sep	785	-7	792	782	692	31,202
Dec	813	-7	820	810	421	28,851
Mar	838	-6	843	835	191	18,174
May	861	-6	866	858	717	16,678
Total					6,490	188,193

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
May	1052	-14	1060	1048	4,724	1,575
Jul	1088	-13	1100	1084	5,206	30,447
Sep	1121	-12	1133	1116	1,695	12,017
Dec	1164	-12	1175	1162	122	8,755
Mar	1207	-9	1216	1202	18	8,636
May	1232	-9	-	-	25	3,926
Total					11,798	64,036

■ COCOA (ICCO) (SDR's/tonne)

Apr 19	Price	Prev. day
Daily	888.94	894.32

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1479	-11	1494	1477	1,652	23,342
Jul	1479	-6	1490	1477	1,638	22,575
Sep	1492	-7	1502	1490	865	8,717
Nov	1505	-8	1515	1500	93	2,696
Jan	1508	-8	1517	1505	7	726
Mar	1510	-8	1520	1520	3	155
Total					4,258	58,211

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	100.00	-2.10	102.50	98.50	4,780	8,383
Jul	101.35	-1.90	103.50	101.00	7,684	21,940
Sep	103.20	-1.90	105.25	103.00	843	8,346
Dec	105.50	-2.00	107.60	105.25	316	4,702
Mar	107.30	-2.10	109.50	107.25	76	1,759
May	109.00	-2.05	-	-	86	321
Total					14,082	45,703

■ COFFEE (ICO) (US cents/pound)

Apr 20		Prev. day
Comp. daily	86.64	85.15
15 day average	87.75	88.01

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	177.6	-1.1	180.9	177.6	986	25,995
Oct	179.8	-0.7	182.5	179.9	824	11,917
Dec	182.8	+0.3	184.5	181.9	108	5,550
Mar	190.7	+0.1	190.6	190.1	78	3,291
May	190.7	-	-	-	-	1,562
Total					1,996	48,484

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	5.14	+0.04	5.15	5.08	9,461	38,772
Jul	4.75	-0.04	4.83	4.74	9,047	77,702
Oct	5.15	-0.09	5.28	5.15	3,348	42,859
Mar	5.79	-0.05	5.88	5.77	2,087	23,354
May	5.90	-0.02	5.98	5.90	140	3,711
Jul	6.01	-0.01	6.09	6.01	33	2,484
Total					24,298	198,942

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	57.22	+0.76	57.40	56.80	6,049	14,582
Jul	58.44	+0.57	58.50	57.75	12,351	25,368
Oct	58.63	+0.48	58.75	57.95	417	2,083
Dec	59.15	+0.53	59.50	58.20	2,993	17,584
Mar	60.25	+0.52	60.40	60.00	207	3,643
May	60.95	+0.60	[illegible]	[illegible]	[illegible]	1,384
Total					22,008	60,803

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	85.85	+0.70	86.50	84.80	3,242	13,815
Jul	85.65	+1.75	86.00	84.00	1,269	9,787
Sep	86.60	+1.50	87.00	85.75	267	3,675
Nov	87.90	+1.50	-	-	182	3,128
Jan	88.90	+1.50	88.00	88.00	49	2,433
Mar	89.90	+1.50	-	-	7	313
Total					5,009	32,883

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Apr 20	Apr 19	month ago	year ago
1338.2	1334.0	1374.2	1845.5

■ CRB Futures (Base: 1967 = 100)

Apr 19	Apr 16	month ago	year ago
191.16	189.22	[illegible]	[illegible]

■ GSCI Spot (Base: 1970 = 100)

Apr 19	Apr 16	month ago	year ago
157.12	151.73	146.41	187.88

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-575	to	780,000
Aluminium alloy	-840	to	64,350
Copper	-200	to	742,550
Lead	+350	to	153,750
Nickel	-108	to	61,202
Zinc	+425	to	318,825
Tin	+75	to	9,600

Tea from the Tea Brokers' Association Mombasa: There was fair general demand for the smaller quantity on offer. Brighter and medium BP1s were irregular but eased by up to 15; the few neater lower mediums were dearer. Plainer BP1s were lost [illegible]. Brighter PF1s were heavily discounted by up to 35 cents and sometimes more, while colory mediums up to 20 cents easier. Brighter p.dusts sold well, rising by up to 30 cents following quality. Mediums, though irregular, were generally firm to 10 cents easier. Lower mediums p.dusts were firm to 7 cents below last rates while plainer sorts shed 5-10 cents.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	66.400	+0.750	66.550	65.900	3,342	9,769
Jun	63.700	+0.800	63.825	63.050	7,706	49,566
Aug	62.425	+0.400	62.625	62.075	1,842	19,802
Oct	64.625	+0.500	64.700	64.125	1,281	13,505
Dec	66.375	+0.425	66.525	66.100	402	5,933
Feb	67.850	+0.350	67.950	67.450	108	2,390
Total						

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	55.975	+0.750	56.250	55.325	4,284	18,678
Jul	57.450	+0.600	57.650	56.900	1,177	7,377
Aug	57.925	+0.450	58.000	57.150	834	7,165
Oct	55.500	+0.475	55.800	54.900	387	7,611
Dec	55.425	+0.600	55.475	54.800	190	3,995
Feb	57.825	+0.325	57.950	57.550	18	751
Total						

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
May	54.850	-0.325	55.600	53.900	1,045	2,708
Jul	55.450	-0.475	56.450	54.900	808	1,963
Aug	54.375	-0.350	55.550	54.050	91	503
Total						

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jun	Sep	Jun	Sep
1250	71	96	12	27
1300	39	66	30	47
1350	18	44	59	73
■ COPPER (Grade A) LME	Jun	Sep	Jun	Sep
1450	91	136	24	46
1500	61	107	44	66
1650	38	83	71	91
■ COFFEE LIFFE	May	Jul	May	Jul
1450	282	31	1	2
1500	242	4	1	25
1550	192	1	1	71
■ COCOA LIFFE	May	Jul	May	Jul
775	1	29	36	41
800	1	19	60	56
825	1	13	85	75
■ BRENT CRUDE IPE	Jun	Jul	Jun	Jul
7400	-	-	5	-
1450	-	-	14	-
1500	-	-	28	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$15.50-5.60	-0.11
Brent Blend (dated)	$15.87-5.94	-0.16
Brent Blend (Jun)	$15.92-5.99	-0.11
W.T.I.	$17.71-7.72x	+0.04
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Unleaded Gasoline ‡	$167-170	+1
Gas Oil	$131-132	-2
Heavy Fuel Oil	$71-73	
Naphtha	$142-144	+2
Jet fuel	$165-167	+2.5
Diesel	$143-144	-1
■ NATURAL GAS (Pence/therm)		
Bacton (Apr)	9.20-9.25	+0.04
Petroleum Argus Tel. London (0171) 359 8792		
■ OTHER		
Gold (per troy oz)♣	$284.85	+1.10
Silver (per troy oz)♣	514.50	+8.0
Platinum (per troy oz.)	$364.00	-1.00
Palladium (per troy oz.)	$384.00	+5.00
Copper	71.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	19.72r	
Tin (New York)	257.5	+7.0
Cattle (live weight)	93.74p	+0.07*
Sheep (live weight)	98.12p	-0.81*
Pigs (live weight)†	65.46p	-1.88*
Lon. day sugar (raw)	$142.90	-0.30
Lon. day sugar (wte)	$192.50	-2.00
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£95.00	
Wheat (US Dark North)	£120.00	
Rubber (May)♥	42.00p	
Rubber (Jun)♥	42.50p	
Rubber (KL RSS No1)	223.50m	+1.50
Coconut Oil (Phil)§	855.0	+10.0
Palm Oil (Malay.)§	502.5y	+5.0
Copra (Phil)§	500.0z	
Soyabeans (US)	[illegible]	
Cotton Outlook 'A' index	57.55	
Wooltops (64s Super)	302p	

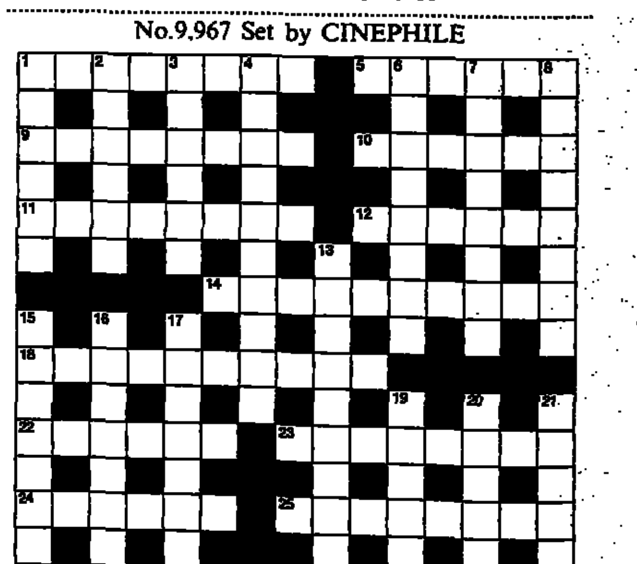
[illegible]

JOTTER PAD

For solutions to today's crossword call 0906 843 0060. Calls cost 60p a minute.

CROSSWORD

No.9,967 Set by CINEPHILE

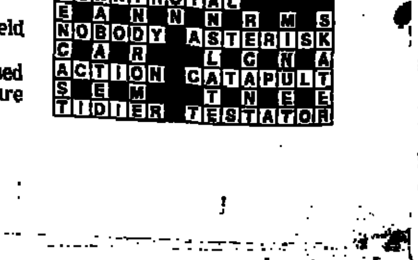


The original M is in Derbyshire

ACROSS
1 Return of the Swan maiden's assistant as queen, a sister to M? (8)
5 Viv leaves exam for a short time with a bird (6)
9 A successor to M is an artist in the good food business (8)
10 Rare sign of trauma at church (6)
11 Despicable fellow gets right to share of large book for money (8)
12 Don't recall fake model (6)
14 Hospital's backing signifies total reversal of squint (10)
18 The young M was Mary's (6,4)
22 Scientist, a sister to M? (6)
23 Broken ribs, a cause of distress for a sister to M? (8)
24 With a race to follow it helps to keep one's teeth nice (6)
25 Fundamentally parasitic larva in a cat (2,6)
26 Soldier poet, a sister to M? (6)
27 Link between hospital doctor and model (8)

DOWN
1 Kidnap the sailor as he goes over the Channel (6)
2 Make certain a number escape blame (6)
3 At both ends there's a field with a shrub (6)
4 How things may be poised to lie at Clyde structure (10)
6 M's sovereign state (8)
7 Setter with most of Welsh woolly on might need jokers (4,4)
8 Systematic essay demanding small change in agreements (8)
13 A successor to M, a tree taking the Queen's weight (10)
15 Quality of a successor to M, perhaps, to finish up in the mirror (8)
16 Good creature with back put up needing to be stiffened (8)
17 Follower of distant successor to M to take effect without retreat (8)
19 Deposit of burnt residue on land? (6)
20 Carnivore on the 10th of March (6)
21 Let's tell you what to do with unruly hair (6)

Solution 9,966



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FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

IRELAND (FSA RECOGNISED)

Christows Investments Plc

Lazard Investment Funds Ltd
29/22 Lower Hatch Street, Dublin 2, Ireland 3531 7605055
Lazard Global Equity Fund Plc

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

FT MANAGED FUNDS SERVICE

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FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

AEROSPACE & DEFENCE

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yield	P/E
AMI		147½xd	—	312½	87½	–	2.8	–
Alvis		202½xd	—	227½	155	141	2.5	15.5
Brit Aerospace		426½xd	-23	587	300	6,248	1.5	16.9
Warrants		1170	-77½	1635	730	6	–	–
7¾p Cv Pf		207	-12¾	224	165¾	–	3.7	–
Bridport		95xd	-½	127½	67½	–	6.0	7.7
Cobham		949	-11	1267½	595	95	1.6	21.9
Chemring		147	—	175½	91	–	3.4	12.2
Hampson Inds		47	+½	83½	44½	216	5.8	7.6
8½p Net Pref		98½	—	132½	94½	–	6.7	–
Intelek		16	—	20	14	18	5.6	13.1
Meggitt		190½xd	-2	242½	120½	739	2.7	17.8
Rolls-Royce		284¾	-5¾	300	176½	8,012	2.3	18.0
Smiths Inds		1001xd	-40	1098	615	1,908	2.0	19.8
Ultra Electronics		390xd	-2½	460	302	59	2.1	17.3
Vosper Thorn		919	+1½	920	560	–	3.2	13.2

AUTOMOBILES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yield	P/E
Adwest		161	—	188½	62	–	5.2	11.3
Airflow Streams		126	—	223	115	–	8.5	11.3
Automotive Precs		9½xd	—	25½	9½	8	8.3	φ
Avon Rubber		522½	+1½	701	393	–	4.4	9.2
Britax Intl		135½	-½	193½	94	1,211	2.7	15.2
Bostrom		282½	—	310	140½	–	3.8	7.1
First Technology		359	—	405¾	268¾	9	1.5	19.9
GKN		1119½	-16½	1143½	520	2,492	1.5	13.9
Honda Motor JPY		2898½xd	+19¾	2987¾	1444	–	0.4	20.2
LucasVarity		285	—	287	168	28	0.9	19.8
Laird		274	-10	477½	123	439	5.5	25.0
Mayflower		214xd	-4	244½	118½	2,089	1.5	17.6
Silver Shield		1¼	—	*1½	1	101	–	φ
Sylkone		98½	—	130	95½	–	7.1	7.2
Toad		21½	—	*27½	17½	182	–	15.7
Tomkins		122½	-1	304	63	78	–	–
Volkswagen DM		£45⅝	-½	*£88¼	£36⅞	–	1.3	φ
Volvo B SKr		£18¾	-⅜	£21⅜	£11⅜	–	2.2	11.4
Wilshaw		44¼	—	51½	33¾	84	2.2	14.8

BANKS

BEVERAGES

CHEMICALS

CONSTRUCTION & BUILDING MATERIALS

CONSTRUCTION & BUILDING MATERIALS - Continued

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yield	P/E
For Versatile see Gladstone								
Vibroplant		52	—	88	50½	–	7.8	25.7
Wardmores		137½	—	139½	90½	–	4.4	11.3
Ward Hldgs		37½	-2	69	25½	12	4.3	–
Westbury		283	+2½	283	145	185	2.7	11.5
Wiggins Group		16¼	-½	*17¼	9¼	723	–	30.7
Wilson Bowden		730	-1½	793	485	27	3.0	11.1
Wilson (Connolly)		149½	-3	178½	95½	75	4.2	9.3
Wimpey (G)		157½xd	-2	183½	90½	550	3.8	9.0
Wolseley		538¼	+½	570	253½	3,830	2.4	15.9

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQUIPMENT

ENGINEERING & MACHINERY

ENGINEERING & MACHINERY - Continued

FOOD & DRUG RETAILERS

HEALTH

HOUSEHOLD GOODS & TEXTILES

FOOD PRODUCERS & PROCESSORS

HOUSEHOLD GOODS & TEXTILES - Continued

FORESTRY & PAPER

INFORMATION TECHNOLOGY HARDWARE

GAS DISTRIBUTION

GENERAL RETAILERS

INSURANCE

INVESTMENT COMPANIES

INVESTMENT COMPANIES - Continued

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

MINING - Continued

REAL ESTATE - Continued

SPECIALITY & OTHER FINANCE - Continued

TRANSPORT - Continued

AIM - Continued

WATER

AMERICANS

STEEL & OTHER METALS

LEISURE, ENTERTAINMENT & HOTELS

OIL & GAS

CANADIANS

SOUTH AFRICANS

REAL ESTATE - Continued

SUPPORT SERVICES

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

LIFE ASSURANCE

PACKAGING

RESTAURANTS, PUBS & BREWERIES

MEDIA & PHOTOGRAPHY

PERSONAL CARE & HOUSEHOLD PRODUCTS

SOFTWARE & COMPUTER SERVICES

PHARMACEUTICALS

GUIDE TO LONDON SHARE SERVICE

TELECOMMUNICATIONS SERVICES

TOBACCO

TRANSPORT

REAL ESTATE

MINING

SPECIALITY & OTHER FINANCE

FT Free Annual Reports Club

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LONDON STOCK EXCHANGE

Wall Street high-tech sell-off jolts FTSE indices

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

London's stock market, riding a wave on Monday when the two main FTSE indices, the 100 and All-Share, hit all-time highs, was hit hard and fast yesterday by Wall Street's about-turn overnight.

That move saw the Dow Jones Industrial Average, up well over 200 points as London closed, suddenly go into reverse and end a net 53 points lower as technology and internet stocks, so recently booming, came under heavy fire.

Dealers in London were under no illusions about London's response. "There was no way we were going to stand in the way of a 320-point reversal in the Dow," said one marketmaker. "It was cut the book and get out of the way, and that strategy proved to be the right one."

There were a handful of extremely short-lived attempts to try to get the leaders to rally, but these were quickly doused as sellers emerged whenever the buyers put their heads above the parapets.

When the curtain came down, the FTSE 100 was left with a 195.5 or 3 per cent fall at 6,319.8. At its worst, an hour after Wall Street came in and as the Dow gave up a modest early gain and dropped more than 70 points, the index was down 235.1.

The pain in the equity market spread right across the board, with the FTSE 250 and SmallCap indices, which have been chased sharply higher since the start of the year, also suffering a severe setback.

The FTSE 250, which many observers had expected to challenge its intra-day record in the short term, posted a 100.0 fall at its lowest of the day, and finished 95.8 lower at 5,753.6. The FTSE SmallCap, meanwhile closed down 16.6 at 2,473.0

Perhaps the biggest disappointment for the market, however, was the performance of the FTSE All-Share index, which, only a day after closing triumphantly above the 3,000 level, dropped back sharply to close 80.99 lower at 2,929.26.

Marketmakers did not appear to expect that yesterday's setback was the start of a really substantial decline in markets. "It doesn't feel as if it is the big one: there is too much corporate activity out there. It may correct later but not yet," said one.

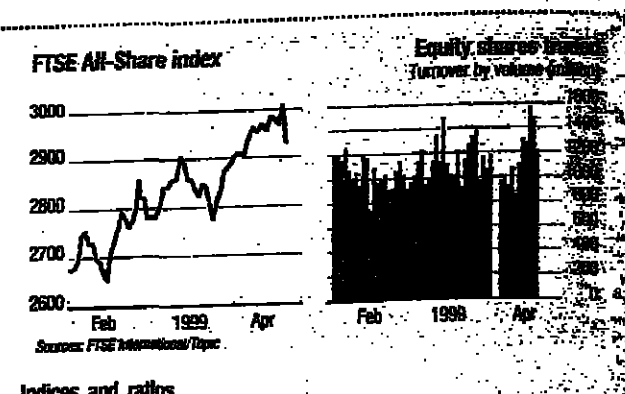
Another said: "We might be in for an unpleasant few days and the market is lacking confidence. I think we'll end the week substantially lower, but it doesn't feel as if we're going over the edge of a cliff."

Other comments from equity salesmen were that May is traditionally a difficult month and that the market has not taken account of the war in the Balkans. But the overwhelming view was that although Footsie looked tired at 6,500, it offered decent value at 6,200 to 6,300.

Turnover in equities was 1.21bn shares, with FTSE 100 stocks accounting for just over half the total. The oil majors were again heavily traded, as were the drug stocks and food retailers.

Consumer stocks provided the majority of the handful of winners in the FTSE 100 list, while it was telecoms/cables, represented by Energis, TeleWest and Colt that were prominent among the losers, along with Dixons, because of its recent internet-driven outperformance.

FTSE All-Share Index



Sources: FTSE International/Topic

Indices and ratios

FTSE 100	6319.8	−195.5	FT 30	3985.6	−106.4
FTSE 250	5753.6	−95.8	FTSE Non-Fins p/e	26.67	27.38
FTSE 350	3024.1	−86.7	FTSE 100 Fut Jun	6333.0	−232.0
FTSE All-Share	2929.26	−80.99	10 yr Gilt yield	4.73	4.73
FTSE All-Share yield	2.3	2.24	Long gilt/equity yld ratio	1.98	2.07

Best performing sectors

1. Diversified Industrials .... +2.4
2. Personal Care & Hse Prods .... +2.3
3. Rests: Pubs & Breweries .... +1.3
4. Beverages .... +0.6
5. Household Goods & Texts .... +0.5

Worst performing sectors

1. Oil & Gas .... −5.0
2. Resources .... −5.0
3. Mining .... −4.4
4. Telecommunication Services .... −4.3
5. Non Cyclical Services .... −4.0

Cable groups in tangle

COMPANIES REPORT

By Peter John and Martin Brice

Cable telecoms companies, some of the strongest performers in the UK market over the past year, fell heavily on expectation of a regulatory inquiry.

Oftel and the Independent Television Commission announced a consultative document on the selling of "bundled" telephone and television services.

Telewest, which recently launched a telephone and television service, was a big Footsie casualty with a fall of 20 to 252¾p. Cable & Wireless Communications, which has also set up a service, fell 31¼ to 658½p.

There was added pressure from ABN Amro, which has turned more cautious on the whole European telecoms industry. Analyst James Ross is "concerned about the extra capital expenditure involved in meeting the needs of the internet".

Although it still likes Cable & Wireless and the cellular stocks, it has turned less keen on Colt Telecom, which fell 83 to £10.70, and remains cautious of BT, which dropped 37 to 982p.

Meanwhile, satellite broadcasters BSkyB and Carlton, which should have been rubbing their hands at the news, fell 22 to 541p and 29½ to 613½p.

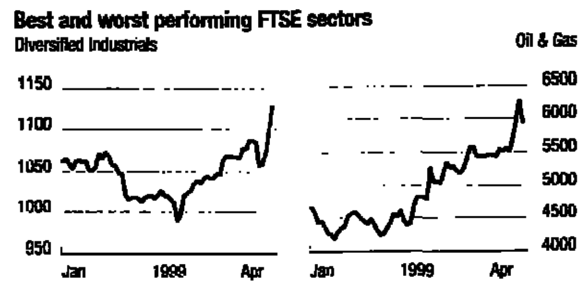
Takeover rumours on Greenalls saw the stock swim against the falling tide as it gained 8½ to 345½p. The stock has been mentioned as a potential bid target for some time as consolidation has moved up the agenda among leisure groups.

However, the latest round of chat comes after a period of underperformance that has seen the stock fall from 386½p reached in February to touch 320p this month. Some analysts said the share price rise could be driven by improving fundamentals. Volume yesterday was 2.8m.

Potential bidders included Bass and Whitbread. Analysts said each could take Greenalls' hotels business into its portfolio. Bass was ahead 23 at 898p as 7.7m were dealt and Whitbread rose 31 to £10.38 amid 3.6m traded.

However, analysts added that the series of trading updates from the leisure sector during the next month or so were likely to result in stronger share prices as forecasts took on board the likelihood of the UK economy avoiding recession and enjoying a soft landing.

Best and worst performing FTSE sectors



Source: FTSE International

Positive sentiment on prospects for the drinks industry spread to Diageo, up 12 at 688p and Scottish & Newcastle, which rose 4 to 703p.

Leading oil stocks retreated as the underlying oil price failed to break through $16 a barrel. BP Amoco dropped 62½ to £11.20 while Shell Transport, which went ex dividend on Monday, fell 23 to 434½p, with volume of 50m making it the most heavily traded single stock in London yesterday. Lasmo moved forward another 7¼ to 149¼p.

Reuters Group fell sharply as the broad weight of general equity selling was exacerbated by disappointment with first-quarter figures.

Although the rise in revenue to £771m was in line with forecasts, turnover only improved by 5 per cent once the currency-related aspects of the gain were stripped out. Also, Peter Job, the notoriously cautious chief executive, said weakness in emerging markets and dull conditions in foreign exchange continued to weigh on sales. The shares closed 70¼ off at 861½p.

Highly rated information technology stocks suffered most as investors moved to lock in profits. The list of the worst FTSE 250 stocks was also a list of the larger information technology stocks. The worst in the mid-cap index was IT services and software company FI Group, which was off almost 12 per cent or 37½ to 287½p.

ARM Holdings, in which Apple Computer of the US has a stake of 15 per cent and Acorn has 24 per cent, was off almost 10 per cent or 287½ at £25.95.

Printer upgrade

St Ives, the printing and direct mail group, was the best performer in the FTSE 250 index with a 10 per cent rise after strong figures produced a rash of upgrades.

There was also a flurry of takeover speculation. Chief executive Miles Emley was quoted as saying the company was "very considerably undervalued . . . Every business has its value and if someone makes an approach to us we will review it on its merits."

Finally, there are hopes that the company, which *won the contract to print the* documents for the BP-Amoco merger, will secure the Asda Kingfisher contract and the Goldman Sachs flotation. It rose 49 to 530½p.

Daily Mail & General Trust jumped as one broker upgraded its profits forecasts for the next three years and set a £35 price target on the stock. The shares rose 23 to £32.85.

SmithKline Beecham resisted the global rout in pharmaceutical stocks after announcing strong figures.

The group announced first-quarter profit of £510m, up from £440m and at the top of the range of analysts' forecasts. Also, Jan Leschly, chief executive, was confident that Avandia, SmithKline's new blockbuster diabetes drug, would get US regulatory approval this week.

On the downside, the company announced it had pulled Idoxifene for osteoporosis, a potentially important product in development. The shares were lifted 14½ to 826p while Glaxo Wellcome fell 60 to £18.48.

ICI was the best performing stock in the Footsie with the shares gaining 32 to 705½p on the back of the global shift from momentum stocks and into cyclical "value" plays.

Reckitt & Colman, which traditionally moves fast on little volume, was pushed up 18 to 679½p after a couple of buy orders in a thin market. There was also faint speculation of corporate activity. One dealer said AB Foods would still have £1m cash pile after its £448m return to shareholders although others were sceptical. Reckitt is capitalised at £2.7bn.

Leisure stocks were hurt by a combination of conflicts.

The war in Kosovo had resulted in falling bookings and cancellations for eastern Mediterranean cruises for Carnival, the US travel *group. Nearer to home the* prospect of Thomson fighting to preserve its market share in the UK saw the stock off 16 at 159p.

Airtours was down 35 at 453½p. **First Choice**, which has agreed to merge with Switzerland's *Kuoni*, was up 2 at 192p.

FT 30 INDEX

	Apr 20	Apr 19	Apr 16	Apr 15	Apr 14	Yr ago	*High	*Low
FT 30	3985.6	4092	4021.1	4033.7	4007.9	3784.6	4092.0	2790.6
Ord. div. yield	2.64	2.57	2.62	2.59	2.58	2.89	4.22	2.58
P/E ratio net	23.89	24.52	24.05	24.32	24.41	24.54	25.41	15.80
P/E ratio nil	23.82	24.45	23.99	24.26	24.34	24.32	25.19	15.71

FT 30 since compilation: high 4004.9 7/15/98, low 49.4 6/26/40 Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
4092.0	4000.1	3992.5	3989.8	3994.7	3980.7	3973.2	3981.5	4092.0	3958.7

STOCK MARKET TRADING DATA

	Apr 20	Apr 19	Apr 16	Apr 15	Apr 14	Yr ago
SEAQ bargains	94,955	102,687	109,039	91,736	87,638	47,801
Equity turnover (£m)†	-	4864.1	5845.4	5163.1	4572.7	1969.6
Equity bargains†	-	63,312	81,736	74,062	71,455	50,791
Shares traded (m)†	-	1173.5	1398.7	1146.9	1127.9	650.4
Total market bargains‡	-	103,086	108,140	93,008	87,970	-
Total turnover (£m)‡	-	7121.6	8341.2	7418.2	6865.3	-
Total shrs traded (m)‡	1207.1	1584.2	1624.2	1560.2	1542.8	-
Tradepoint turnover (£m)	40.6	26.0	38.6	33.5	30.8	72.8
Tradepoint shrs traded(m)	15.8	11.8	16.4	13.0	11.0	4.1

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	418	Total Highs	64	Total contracts	54,354
Total Falls	1,250	Total Lows	22	Calls	20,672
Same	1,179			Puts	33,682

Apr 20 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	6493.0	6347.0	-223.0	6495.0	6315.0	34271	206716
Sep	6437.5	6394.5	-225.5	6437.5	6437.5	1000	4897
Dec		6454.0	-228.0			0	1150

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		5754.0	-85.0			0	7357

■ FTSE 100 INDEX OPTION (LIFFE) (*6320) £10 per full index point Apr 20

	6150 C	6150 P	6200 C	6200 P	6250 C	6250 P	6300 C	6300 P	6350 C	6350 P	6400 C	6400 P	6450 C	6450 P	6500 C	6500 P
May	298	109½	257	121½	223½	139½	191½	159	158½	179	138½	208	113½	229½	92½	258
Jun	353	164½	320	183	299½	203	269½	223	235½	243½	205	264½	182	291½	160	319½
Jul	428	207	398	226	368	245½	338	265	309½	284½	279	305	248	331½	226½	359½
Aug	493	269	462½	288½	432	307½	402	326½	371½	346	341	365½	311½	387½	288	414½
Dec†			672	432			613	470½			554½	511½			487	558½

Calls 2,457 Puts 5,031

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point Apr 20

	6175 C	6175 P	6225 C	6225 P	6275 C	6275 P	6325 C	6325 P	6375 C	6375 P	6425 C	6425 P	6475 C	6475 P	6525 C	6525 P
Apr	271	116	237½	132	205½	150	176	170	149	193	124½	218	102½	245½	83	276
May	348	177½	316½	196	284½	213½	253½	231½	226	253½	200½	277½	175	301½	154	330½
Jun	419½	223½	386½	240½	355	259	324½	278½	296	299	267½	321½	241	345	216½	370½
Sep			481	315½			425½	357½			367	397			318	446
Dec†			653	432			588	464½			528½	501½			469	537½

Calls 5,084 Puts 16,480 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1999 High	1999 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§–	F.P.	26.1	148½	143½	†Affinity Internet	143½		–	–	–	–
100	F.P.	–	95	95	Br Smlr Cos VCT	95		–	–	–	–
[illegible]											
§–	F.P.	0.88	6½	6	†Voyager 2000	6½		–	–	–	–

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1999 High	1999 Low	Stock	Closing price p	+or-
12.5	Nil	4/5	2½pm	1pm	Caliona	1pm	–½
80	Nil	28/4	23pm	9½pm	Mice	12pm	–1
0.5	Nil	30/4	1½pm	½pm	Versailles	1½pm	

pm premium.

FTSE GOLD MINES INDEX

	Apr 19	% chg on day	Apr 16	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (28)	891.56	+2.61	866.37	1212.51	1.87	1001.80	1351.57	701.56
■ Regional Indices								
Africa (9)	1136.77	+1.65	1108.49	1246.04	3.75	1150.46	1488.04	785.63
Australasia (8)	1167.42	+1.66	1148.38	1488.25	2.71	1184.94	1600.53	815.97
Americas (11)	918.35	+3.28	889.15	1177.59	0.79	922.39	1317.41	647.68

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial.

FTSE Actuaries Share Indices — UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stg Apr 20	Day's chge%	Euro Index	£ Stg Apr 19	£ Stg Apr 16	Year ago	Actual yield%	Cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	6319.8	−3.0	7466.5	6515.3	6420.6	5955.0	2.18	1.66	27.61	62.68	2826.50
FTSE 250	5753.6	−1.6	6797.7	5849.4	5796.2	5543.4	2.74	1.88	19.42	50.81	2526.79
FTSE 250 ex Inv Co	5822.6	−1.6	6879.2	5918.5	5864.7	5584.9	2.85	1.93	18.15	52.46	2569.00
FTSE 350	3024.1	−2.8	3572.8	3110.8	3068.3	2862.9	2.27	1.70	25.89	29.48	2784.34
FTSE 350 ex Inv Co	3031.0	−2.8	3581.0	3118.6	3075.8	2867.3	2.28	1.71	25.66	29.76	1421.28
FTSE 350 Higher Yield	3013.3	−2.8	3560.1	3099.7	3037.4	2820.6	2.94	1.58	21.46	33.87	2369.98
FTSE 350 Lower Yield	3028.4	−2.8	3578.0	3115.3	3093.9	2919.3	1.56	1.93	33.16	24.42	2235.10
FTSE SmallCap	2472.98	−0.7	2921.72	2489.59	2467.10	2630.99	2.86	1.84	18.98	20.87	2203.86
FTSE SmallCap ex Inv Co	2437.16	−0.8	2879.41	2451.65	2432.02	2622.59	3.05	1.94	16.90	21.52	2197.46
FTSE All-Share	2929.26	−2.7	3460.80	3010.25	2969.70	2791.50	2.30	1.71	25.45	28.37	2717.60
FTSE All-Share ex Inv Co	2939.53	−2.7	3472.94	3021.73	2980.93	2798.13	2.31	1.72	25.13	28.74	1403.33
FTSE Fledgling	1344.09	−0.7	1587.98	1354.08	1340.06	1409.10	2.95	1.22	27.79	10.50	1526.07
FTSE Fledgling ex Inv Co	1351.28	−0.7	1596.49	1360.92	1348.46	1425.55	3.37	1.26	23.55	11.75	1539.95
FTSE All-Small	1400.05	−0.7	1654.11	1409.67	1396.55	1484.94	2.88	1.71	20.34	11.64	1592.54
FTSE All-Small ex Inv Co	1405.80	−0.6	1660.89	1414.49	1402.84	1508.44	3.11	1.80	17.91	12.38	1811.12
FTSE AIM	909.5	−0.7	1074.5	916.1	902.7	1068.6	1.06	30.00†	0.13	3.00	836.47

■ FTSE Actuaries Industry Sectors

	£ Stg Apr 20	Day's chge%	Euro Index	£ Stg Apr 19	£ Stg Apr 16	Year ago	Actual yield%	Cover	P/E ratio	Xd adj. ytd	Total Return
RESOURCES(18)	5142.31	−5.0	6075.43	5412.17	5181.00	4783.93	2.43	0.62	65.43	51.23	2426.94
Mining(6)	3939.74	−4.4	4654.65	4121.35	3960.77	3274.89	3.02	1.65	18.93	71.13	1300.25
Oil & Gas(12)	5942.16	−5.0	7020.43	6258.02	5985.05	5353.31	2.37	0.48	80.00†	53.96	2880.17
BASIC INDUSTRIES(83)	2287.74	−0.9	2702.87	2308.80	2260.18	2231.79	3.51	1.77	16.10	26.60	1388.21
Chemicals(20)	2441.88	+0.1	2884.98	2439.92	2406.23	2899.20	3.76	1.26	21.20	48.77	1301.99
Construction & Bld Matls(60)	2049.57	−1.3	2421.49	3077.19	2029.57	1842.57	3.03	2.25	14.66	17.25	1154.22
Forestry & Paper(2)	5988.44	−2.6	7075.10	6148.16	6109.61	4783.93	5.15	1.74	11.16	28.99	2813.06
Steel & Other Metals(1)	2959.01	−1.4	3495.95	3001.42	2836.60	3011.36	6.37	1.13	13.95	22.19	1965.90
GENERAL INDUSTRIALS(78)	2142.33	−2.8	2531.08	2203.17	2176.17	2231.79	2.54	2.17	18.17	22.70	1297.37
Aerospace & Defence(9)	2574.17	−3.5	3041.27	2667.37	2667.40	3011.36	1.89	2.94	17.99	22.59	1710.50
Diversified Industrials(4)	1126.89	+2.4	1331.37	1100.33	1071.94	1458.40	5.16	0.81	24.03	18.83	728.03
Electronic & Elect Equip(21)	3049.54	−3.1	3602.91	3147.22	3120.31	2508.54	2.31	1.97	22.01	20.54	1721.58
Engineering & Machinery(44)	2747.74	−2.2	3246.35	2810.71	2752.23	3011.36	2.99	2.04	18.36	29.13	1830.75
CYCLICAL CONSUMER GOODS(16)	7097.49	−1.2	8385.40	7183.71	7148.81	5621.77	2.31	2.88	15.02	68.02	2870.97
Automobiles(7)	5216.05	−1.4	6162.55	5291.88	5269.33	4214.32	1.70	3.96	14.84	40.43	2832.43
Household Goods & Texts(9)	2049.52	+0.5	2421.43	2040.21	2021.64	3626.98	6.55	0.93	16.41	52.57	903.29
NON-CYCLICAL CONS GOODS(84)	5648.87	−1.2	6673.92	5714.84	5635.07	5621.77	2.19	1.57	29.11	69.56	2286.02
Beverages(9)	3683.03	+0.6	4351.36	3661.53	3503.84	3866.99	2.86	1.95	17.94	47.36	1495.98
Food Producers & Processors(23)	3193.88	−1.8	3773.44	3252.65	3238.43	4031.36	2.68	2.03	18.39	43.08	1585.93
Health(14)	2452.03	−1.9	2896.97	2499.10	2525.84	2338.96	1.98	1.48	34.13	8.05	1588.68
Packaging(10)	2008.66	−1.3	2373.15	2034.49	2013.25	2230.71	5.27	2.03	9.37	48.72	854.38
Personal Care & Hse Prods(4)	2010.48	+2.3	2375.30	1965.94	1994.96	3626.98	3.91	1.69	15.15	40.18	880.54
Pharmaceuticals(21)	10277.71	−1.5	12142.70	10430.62	10301.72	9284.42	1.86	1.29	46.69	105.45	3739.41
Tobacco(3)	6066.00	−0.1	7166.73	6074.21	6008.60	4840.52	4.94	1.31	15.44	191.28	1778.34
CYCLICAL SERVICES(227)	3937.70	−2.2	4652.24	4026.92	3994.64	3415.61	2.20	2.12	21.45	20.59	2202.46
Distributors(25)	2289.92	+0.2	2705.45	2284.74	2247.85	2944.29	3.40	1.83	18.11	17.96	927.80
General Retailers(41)	2383.37	−2.8	2827.67	2463.43	2475.62	2370.81	2.58	2.03	19.07	12.04	1488.74
Leisure, Entertmt & Hotels(30)	4102.20	−1.8	4846.59	4175.93	4062.59	3938.23	2.04	2.48	19.72	50.97	2377.16
Media & Photography(45)	5272.51	−3.3	6229.26	5450.36	5430.09	4443.82	1.74	1.97	29.31	46.33	2032.94
Rests, Pubs & Breweries(22)	3830.31	+1.3	4525.36	3781.24	3752.67	4290.54	2.65	2.19	17.27	17.00	1997.09
Support Services(35)	5136.19	−2.7	6068.20	5277.38	5204.06	4864.35	1.60	2.14	29.25	21.36	3418.09
Transport(29)	3632.27	−2.1	4291.38	3710.57	3656.77	3571.46	2.48	2.25	17.91	29.25	1653.22
NON-CYCLICAL SERVICES(22)	3804.79	−4.0	4495.20	3982.04	3960.75	3415.61	1.51	1.78	37.30	18.58	2127.03
Food & Drug Retailers(13)	2679.71	−2.4	3165.97	2746.16	2716.22	3079.58	2.78	2.16	16.65	22.19	1863.41
Telecommunications Services(9)	5854.99	−4.3	6917.43	6119.26	6131.89	3778.47	1.21	1.58	52.23	4.51	2888.28
UTILITIES(20)	3630.51	−1.8	4289.31	3697.54	3718.26	3809.36	3.71	1.68	16.10	25.72	1778.13
Electricity(7)	4090.68	−1.1	4832.97	4137.67	4142.10	4288.63	3.90	1.23	20.90	21.24	2455.59
Gas Distribution(2)	2999.41	−2.5	3543.69	3077.36	3112.61	2771.57	1.87	2.40	22.28	28.03	1784.05
Water(11)	2882.40	−2.3	3405.44	2951.20	2974.57	3424.14	5.37	2.04	9.14	24.10	1830.69
INFORMATION TECHNOLOGY(36)	1618.77	−4.6	1912.52	1697.51	1717.39	1447.24	0.45	4.59	48.89	52.61	1829.85
[illegible]											

■ Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	[illegible]									
FTSE 250	[illegible]									
FTSE SmallCap	[illegible]									
FTSE All-Share	[illegible]									

[illegible]

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	1,246	684	−9½
AMVESCAP	1,556	621	−37½
ASDA Group	17,302	187¼	−10
Abbey National	2,135	1309	−55
Alliance & Leicester	1,570	880½	−21½
Allied Domecq	2,882	482	−10½
Allied Zurich	5,814	790	−23
Assoc. Brit. Foods	797	434½	−9½
AstraZeneca	5,305	2554	−57
BAA	2,298	630	−7½
[illegible]			

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Apr 20) 1 € = 13.76030 Sch

BELGIUM/LUX (Apr 20) 1 € = 40.33990 Frs.

FINLAND (Apr 20) 1 € = 5.94573 Mka

FRANCE (Apr 20) 1 € = 6.55957 Frs.

GERMANY (Apr 20) 1 € = 1.95583 Dm.

IRELAND (Apr 20) 1 € = 0.78756 Punt

ITALY (Apr 20) 1 € = 1936.27000 Lire

NETHERLANDS (Apr 20) 1 € = 2.20371 Fl.

PORTUGAL (Apr 20) 1 € = 200.48200 Esc.

SPAIN (Apr 20) 1 € = 166.38600 Pts.

EUROPE (NON-EMU)

CZECH REP (Apr 20 / Korunas)

DENMARK (Apr 20 / Kr)

GREECE (Apr 20 / Drachmas)

NORWAY (Apr 20 / Kroner)

POLAND (Apr 20 / Zloty)

SWEDEN (Apr 20 / Kronor)

SWITZERLAND (Apr 20 / Frs.)

TURKEY (Apr 20 / Tk Lira)

PACIFIC

JAPAN (Apr 20 / Yen)

HONG KONG (Apr 20 / H.K.$)

INDONESIA (Apr 20 / Rupiah)

MALAYSIA (Apr 20 / MYR)

NEW ZEALAND (Apr 20 / NZ $)

SINGAPORE (Apr 20 / S$)

AUSTRALIA (Apr 20 / Aust$)

SOUTH KOREA (Apr 20 / Won)

TAIWAN (Apr 20 / TW $)

THAILAND (Apr 20 / Baht)

MONTREAL (Apr 20 / Can $)
4 pm close

MEXICO (Apr 20 / Peso)
12.30pm

AFRICA

SOUTH AFRICA (Apr 20 / Rand)

AMERICAS

CANADA

TORONTO (Apr 20 / Can $)
4 pm close

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY APRIL 19 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY APRIL 16 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	233.77	1.1	215.02	174.45	253.63	238.65	0.3	3.18	231.31	212.45	172.69	248.80	237.82	233.77	183.88	218.42
Austria (21)	188.02	2.1	172.94	140.31	180.00	180.00	2.9	1.96	184.23	169.21	137.54	174.86	174.86	253.73	185.27	221.62
Belgium (22)	362.15	-0.2	333.10	270.26	339.45	339.45	0.7	2.07	382.89	383.30	270.92	337.22	337.22	446.95	319.89	327.48
Brazil (29)	150.56	-1.9	138.49	112.36	163.35	452.54	-1.8	4.88	153.50	140.98	114.59	165.11	471.14	266.18	89.32	266.18
Canada (113)	221.60	-1.8	203.82	165.37	240.42	237.66	-2.1	1.64	225.75	207.34	168.53	242.82	243.09	248.78	159.94	247.96
Denmark (34)	428.55	0.6	394.18	319.82	464.96	408.22	1.5	1.82	425.94	391.21	317.99	458.16	402.30	537.33	406.62	516.00
Finland (28)	674.33	-2.4	620.24	503.23	792.79	792.79	-1.5	1.48	690.80	634.47	515.72	805.17	805.17	718.62	338.49	413.79
France (74)	328.99	1.3	302.60	245.51	318.95	318.95	2.2	1.92	324.77	298.28	242.46	312.15	312.15	354.45	253.86	301.94
Germany (54)	261.92	0.3	240.91	195.46	250.93	250.93	1.2	1.59	261.14	239.84	194.95	248.03	248.03	325.61	226.85	282.14
Greece (38)	386.61	-6.2	355.60	288.51	419.45	849.15	-5.2	1.29	412.31	376.69	307.81	443.49	898.05	454.89	211.47	-
Hong Kong, China (66)	376.98	3.2	346.75	281.33	409.01	375.00	3.2	3.02	365.42	335.62	272.81	393.06	363.52	378.98	196.64	332.47
Indonesia (23)	60.92	11.3	56.03	45.46	66.09	321.39	10.7	0.91	54.73	50.27	40.86	58.87	290.42	60.92	19.04	57.70
Ireland (14)	548.97	0.0	503.10	408.19	571.90	571.90	0.9	1.80	548.69	502.12	408.14	566.70	566.70	606.85	396.15	545.22
Italy (53)	168.89	0.1	155.35	126.04	230.11	230.11	0.9	1.51	168.80	155.03	128.02	228.01	228.01	192.64	128.68	173.43
Japan (443)	117.76	-0.8	108.32	87.88	127.77	87.88	-0.6	0.84	118.43	108.77	88.42	127.39	88.42	118.43	76.83	95.89
Mexico (29)	1860.31	-0.4	1527.14	1239.04	1801.36	17063.74	-1.7	1.49	1867.43	1531.47	1244.83	1798.54	17357.57	1733.73	787.15	1690.09
Netherlands (26)	505.51	1.4	464.98	377.25	479.05	479.05	2.2	2.00	498.74	458.07	372.33	468.57	468.57	582.73	394.92	496.63
New Zealand (18)	68.29	1.0	62.82	50.97	74.10	66.09	0.5	3.63	67.60	62.09	50.47	72.71	65.75	76.03	45.66	75.62
Norway (37)	255.93	3.1	235.40	190.99	277.68	270.57	3.6	1.82	248.17	227.93	185.27	268.94	261.06	357.71	181.86	340.92
Philippines (22)	110.31	6.9	101.46	82.32	119.68	208.63	6.2	0.70	103.20	94.76	77.04	111.00	196.46	110.91	42.46	93.72
Portugal (18)	216.06	-0.2	198.73	161.24	279.34	279.34	0.7	1.36	218.44	198.79	161.58	277.43	277.43	259.39	194.13	-
Singapore (40)	277.70	4.9	255.43	207.24	301.29	218.23	4.9	1.18	264.82	243.23	197.70	284.85	208.05	277.70	102.45	211.81
South Africa (34)	242.40	1.8	222.96	180.90	263.00	321.02	1.1	3.01	238.00	218.59	177.88	255.99	317.84	346.20	151.53	337.12
Spain (29)	364.17	-0.1	334.96	271.77	432.51	432.51	0.7	1.65	364.61	334.88	272.20	429.31	429.31	435.19	290.81	389.85
Sweden (41)	580.66	0.6	515.69	418.41	608.30	695.29	1.3	1.96	557.55	512.09	416.24	598.72	696.15	628.19	379.18	599.17
Switzerland (30)	386.56	0.4	355.55	288.48	419.40	361.56	1.1	1.22	385.14	353.74	287.53	414.27	357.47	441.85	307.73	394.84
Thailand (26)	31.47	2.7	28.94	23.48	34.14	45.52	2.2	1.82	30.64	28.14	22.87	32.98	44.52	31.47	8.15	27.39
United Kingdom (201)	411.84	1.3	378.80	307.34	446.82	378.80	1.5	2.24	406.50	373.35	308.47	437.24	373.35	411.84	307.96	390.91
USA (605)	531.79	-2.2	489.14	396.86	576.97	531.79	-2.2	1.25	544.04	499.68	408.16	585.19	544.04	559.68	390.12	459.24
Americas (776)	474.84	-2.2	436.02	353.77	514.32	401.85	-2.2	1.29	484.82	446.29	361.94	521.48	411.07	497.71	347.59	416.44
Europe (718)	362.33	0.7	333.26	270.39	393.11	352.16	1.3	1.88	359.67	330.34	268.51	386.87	347.51	388.24	282.83	356.29
Eurobloc (339)	101.46	0.5	93.33	75.72	105.21	105.21	1.4	1.75	100.96	92.72	75.37	103.78	103.78	113.92	81.53	-
Nordic (140)	529.50	-0.2	487.03	395.15	574.48	567.70	0.6	1.78	530.46	467.21	396.02	570.58	564.26	555.97	380.04	521.39
Pacific Basin (713)	127.42	0.1	117.20	95.09	138.25	97.92	0.0	1.26	127.34	116.96	95.07	136.97	97.96	127.42	82.88	106.89
Euro-Pacific (1431)	224.71	0.5	206.69	167.70	243.81	193.37	0.9	1.88	223.55	205.32	166.89	240.46	191.86	225.07	188.00	210.72
North America (718)	510.93	-2.2	469.95	381.29	554.34	511.56	-2.2	1.27	522.52	480.00	390.16	562.14	523.32	536.94	374.92	445.82
Europe Ex. UK (517)	326.95	0.4	300.73	244.00	354.73	328.85	1.3	1.68	325.58	299.93	243.06	350.20	324.72	366.32	260.93	327.92
Europe Ex. Eurobloc (379)	102.21	1.0	94.01	76.27	110.89	105.57	1.3	2.01	101.23	92.97	75.57	108.86	104.21	103.93	77.40	-
Europe Ex. UK Ex. Eurobloc (178)	96.32	0.1	88.60	71.88	104.50	98.68	0.9	1.45	96.19	88.34	71.81	103.48	98.76	109.21	75.16	-
Pacific Ex. Japan (270)	219.48	2.5	201.87	163.79	238.12	221.12	2.1	2.87	214.14	196.88	159.87	230.33	216.51	219.48	126.26	202.66
World Ex. Eurobloc (1902)	112.49	-1.3	103.47	83.95	122.05	111.81	-1.2	1.42	113.93	104.64	85.06	122.55	113.21	115.18	83.09	-
World Ex. US (1636)	225.09	0.4	207.04	167.98	244.21	199.10	0.7	1.71	224.17	205.89	167.36	241.13	197.66	225.26	155.95	215.20
World Ex. UK (2040)	315.56	-1.3	290.25	235.50	342.37	286.94	-1.1	1.36	319.66	293.59	238.64	343.84	290.22	323.87	236.11	284.68
World Ex. Japan (1798)	426.88	-1.1	392.84	318.57	463.14	424.45	-0.9	1.55	431.47	396.28	322.11	464.10	428.26	439.15	320.58	392.00
The World Index (2241)	323.86	-1.0	297.89	241.89	351.38	295.33	-0.9	1.47	327.16	300.48	244.24	351.90	297.88	330.98	242.36	293.68

Emerging markets: IFC Investable Indices

Dollar terms

4 pm close April 20

NEW YORK STOCK EXCHANGE PRICES

- A -

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

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- I -

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- J -

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- K -

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- L -

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- M -

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- N -

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- O -

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- P - Q -

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- R -

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- S -

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- T -

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

[illegible]

Price data supplied by Financial Times Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1999. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Apr 19	Apr 16	Apr 15	1999 High	1999 Low	Since compilation High	Since compilation Low
Industrials	10440.53	10493.89	10462.72	10759.57 (19/4)	9120.67 (22/1)	10759.88 (19/4/99)	41.22 (8/7/32)
Home Bonds	104.11	104.05†	104.30	108.89 (13/1)	103.95 (1/4)	107.17 (5/12/98)	54.99 (1/10/81)
Transport	3566.71	3528.70	3453.57	3586.71 (19/4)	3063.80 (22/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	298.42	296.15	293.96	311.91 (4/1)	285.44 (12/2)	320.51 (8/10/98)	10.50 (8/7/32)

DJ Ind. Day's high 10976.76(10632.90) Low 10284.39 (10299.53) (Theoretical‡)
Day's high 10765.74(10520.01) Low 10404.87 (10396.61) (Actual‡)

Standard and Poors	Apr 19	Apr 16	Apr 15	1999 High	1999 Low	Since compilation High	Since compilation Low
Composite‡	1290.68	1319.00	1322.86	1358.84 (12/4)	1212.19 (14/1)	1358.84 (12/4/99)	4.40 (1/6/32)
Industrials¶	1535.73	1580.07	1586.40	1632.01 (12/4)	1461.72 (14/1)	1632.01 (12/4/99)	3.52 (30/6/32)
Financial¶	145.76	146.00	146.21	149.90 (12/4)	123.72 (9/2)	149.90 (12/4/99)	7.13 (4/9/74)
Others							
NYSE Comp.	615.88	624.90	622.89	633.13 (12/4)	576.82 (9/2)	633.13 (12/4/99)	4.64 (25/4/42)
Amex Comp	735.11	745.41	737.93	745.41 (16/4)	683.51 (4/1)	763.87 (22/4/98)	524.20 (19/7/96)
NASDAQ Cmp	2345.61	2484.04	2521.77	2598.82 (12/4)	2208.05 (4/1)	2598.82 (12/4/99)	54.87 (3/10/74)
Russell 2000	412.41	421.58	417.77	433.13 (11/1)	383.37 (23/3)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Apr 16	Apr 9	Apr 2	Year ago
Dow Jones Ind Div. Yield	1.51	1.56	1.61	1.53
	Apr 14	Apr 7	Mar 31	Year ago
S & P Ind. Div. yield	1.08	1.07	1.11	1.31
S & P Ind. P/E ratio	41.48	41.63	40.39	30.69

US DATA

MARKET ACTIVITY

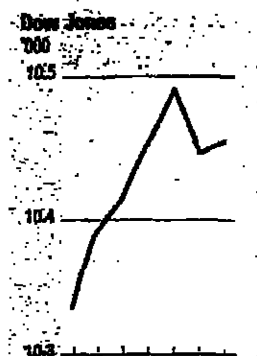
NYSE TRADING ACTIVITY

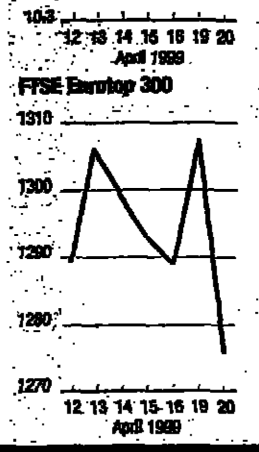
ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
DellCmp	38,588,400	35¾	-2⅜
Micsft	34,475,800	81	-8⅝
Intel	32,078,800	55½	-1⅝
SunMic	24,885,800	50⅝	-4⅛
CiscoSys	18,849,900	100	-5⅜
Oracle	17,440,300	23⅞	-1⅛
MCIWcm	16,007,800	82¼	-2½
E trade	14,396,700	73⅜	-18¾
Amz.com	14,090,300	158⅜	-31¼
Amgen Inc	11,796,100	66⅜	-5⅜

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Gblinds	11¼	+1⅝	+17.2
CotedFr	12	+1⅝	+15.0
Downs			
Ampre	46	-21¼	-32.1
AmerTrade	87⅞	-38¼	-30.3
Etlweb	44½	-19¼	-30.2
CMET	86	-34	-28.3
Vrtljet	80	-31	-27.9
VignCp	69	-25¾	-27.1





JAPAN

FRANCE

GERMANY

FRANKFURT TRADING ACTIVITY

Volume : (d)

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Dt Bk	1,118,238	45.1	-2.12
BASF	517,263	41.75	+0.4
Bayer	462,874	40.55	-0.07
Dt Tel	359,565	38.3	-1.4
Cmrzbk	359,289	29.2	-0.65
DmlrCh	358,867	91.7	-0.75
ThyKrp	320,283	20.9	-0.68
Siemns	242,063	65.9	-1.4
Lufthn	217,047	22.1	-0.1
FagKug	200,902	9.8	

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Massa	81	+3	+3.8
ProSPt	43.4	+1.4	+3.3
KlockW	64	+2	+3.2
Sixt	59.5	+1.5	+2.6
Downs			
AixMnRg	102	-9	-8.1
AachMunBr	101	-8	-7.3
Fresng	45.7	-3.2	-6.5
SAP	236	-15	-6.0

UK

LONDON TRADING ACTIVITY

Volume : 1,207,100,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Shell T&T	49,046,630	434¾	-23
Centrica	28,729,108	109¾	-3¾
Tesco	28,092,980	177¾	-2¾
SmKl Bchm	21,755,830	826	+14½
Reuters Hldg	21,398,370	85½	+1½
Invensys	20,977,780	318½	-11¾
Aggregate	19,833,320	83¾	-5
BP Amoco	19,382,980	1120	-62½
ASDA	17,302,310	183¾	-10
Vodafone	15,993,000	1068	-48

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Dalkyeth	3	+¾	+33.3
Danby	103½	+24½	+31.0
Brancote	18¾	+4	+27.1
London Forfig	62½	+10	+19.0
Downs			
Surrey	½	-⅛	-20
Cura Group	29½	-7	-19.2
Gaelic Res	1¼	-¼	-18.7
Emerald Engy	4	-¾	-15.8

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	1300.50	1301.80	-	1316.50	1295.50	142,902	374,492
Sep	-	1314.50	-	1362.00	1303.00	140	5,452
Nikkei 225							
Jun	16530.0	16740.0	+120.0	16750.0	16500.0	32,923	209,459
Sep	16600.0	16600.0	-140.0	16600.0	16600.0	4	5,661

Open interest figures for previous day

CAC-40 (200 x index)	Open	Sett.Price	Change	High	Low	Est. vol.	Open int.
Apr	4320.0	4257.0	-116.5	4337.0	4248.0	64,384	110,596
May	4304.0	4244.0	-116.5	4304.0	4239.0	762	3,242
DAX							
Jun	5201.0	5111.0	-152.5	5212.5	5091.5	50,554	322,342
Sep	5228.5	5144.0	139.0	5241.0	5151.0	139	1,876

OMX	Open	Sett.Price	Change	High	Low	Est. vol.	Open int.
Apr	763.00	762.00	-16.00	767.00	754.50	57,488	98,940
May	762.00	759.25	-17.25	763.50	752.25	43,450	37,611
EUREX							
Jun	7107.0	7061.0	-128.0	7128.0	7022.0	26,201	106,016
Sep	7130.0	7075.0	-134.0	7130.0	7041.0	289	3,857

WORLD MARKETS AT A GLANCE

Country	Index	Apr 20	Apr 19	Apr 16	1999 High	1999 Low	Yield	P/E
India	BSE Sens.	3443.99	3451.43	3572.91	3784.11 9/3	3122.04 4/1	1.93	14.1
	S & P CNX 500	686.55	684.81	718.73	758.25 31/3	628.19 4/1		

Turned negative as investors stayed put ahead of formation of new government.

Country	Index	Apr 20	Apr 19	Apr 16	1999 High	1999 Low	Yield	P/E
Indonesia	Jakarta Comp.	485.97	508.14	479.53	508.14 19/4	372.31 15/3	2.41	22.3

Bomb explosion in Jakarta added to negative sentiment and falls bounced rises more than fivefold.

Country	Index	Apr 20	Apr 19	Apr 16	1999 High	1999 Low	Yield	P/E
Portugal	BVL 30	4394.43	4502.81	4493.31	5258.85 6/1	4378.85 18/3	2.23	25.5
	PSI 20	10097.43	10350.60	10310.00	12120.85 6/1	10063.08 18/3		

Banks led retreat as market fell in line with weak neighbouring bourses.

Country	Index	Apr 20	Apr 19	Apr 16	1999 High	1999 Low	Yield	P/E
Russia	RTS	76.58	81.09	79.59	90.02 17/3	54.48 28/1	na	na

Shares sank on news Russia would not repay tranche of MinFin bonds maturing in May.

THE NASDAQ-AMEX MARKET GROUP

4 pm close April 20

AMEX

4 pm close April 20

EASDAQ

STOCK MARKETS

Bourses get the message from internet falls

WORLD OVERVIEW

Monday's dramatic nosedive on Wall Street sent equities reeling yesterday. Both Europe and Asia fell heavily and the prevailing gloom found no comfort in the further early declines for US shares, *writes Jeffrey Brown.*

Internet stocks, which were mostly responsible for the dramatic turnround for the mood in US equities on Monday, were initially steadier. But after falls of more than 16 per cent for sector leaders like America Online and Amazon.Com, the investment world is suddenly a much more volatile place.

There was little that Asia could do to turn the tide. Jakarta, up 6 per cent 24 hours earlier, retreated 4.8 per cent. Among the bigger Asian markets, Hong Kong gave up all of the previous day's 2.7 per cent advance.

In Europe there was a near rout with both value and growth sectors taking a severe mauling. The trio of electronic leaders due to unwrap results tomorrow – Philips, Nokia and Ericsson – were notably weak. Drugs were another sector sought out with lethal results by the profit-takers.

Paris, which had climbed to within 36 points of its all-time peak on Monday, lost 2.8 per cent. Frankfurt, where sentiment was additionally dented by the latest business confidence survey, fell 3 per cent.

The German IFO business survey showed an improvement in March for the first time in nine months, but the gains to 90.2 from just below 89.8 in February fell short of analysts' expectations. "There is a glimmer of hope, but no very obvious certainty that Europe's core economy is on the mend," said one broker.

However, many observers remain relatively sanguine about the latest shake-out for equities in Europe. Ben Funnel, of Morgan Stanley Dean Witter's strategy team, said the process of portfolio realignment from growth to value stocks was always going to create additionally volatility.

"Sector rotation always creates tugs of war between the bulls and the bears. We remain confident of at least 10 per cent growth in Europe this year," he says.

Nasdaq turns higher as techs stage rebound

AMERICAS

US shares were mixed in early trading as leading technology stocks pushed cautiously higher after Monday's heavy round of selling for the sector, *writes John Labate in New York.*

Investors carefully picked through the wreckage after the Nasdaq composite index racked up its second steepest points decline on Monday. By early afternoon, the Nasdaq was on the rebound, up *48.03 or 2 per cent at 2,393.64.*

The blue-chip sector lost further ground but was well above its worst early levels with the Dow Jones Industrial Average down 9.16 at 10,431.37. The broader market had a positive tone, with the Standard & Poor's 500 index up 14.99 to 1,304.47.

Investors continued to pore over the latest quarterly results on what is traditionally known as "super Tuesday" for the large number of bank earnings released.

As a group, banks were mixed at midday, with Chase Manhattan off $4 1/16 at $80½ after reporting a 62 per cent gain in earnings and Bank One was down $1 at $58 5/16 after reporting its first-quarter results. Wells Fargo climbed $¾ to $41 13/16 after beating expectations.

In the Treasury market, the benchmark long bond fell 3/32 to 96, sending the yield higher to 5.525 per cent after the morning release of a record trade deficit in February.

The report suggested to analysts that estimates of first-quarter gross domestic product would be trimmed back, but also threw some doubt on the strength of the global economy.

Leading pharmaceutical companies were up after recent weakness and as several reported first quarter earnings. Johnson & Johnson, a Dow member, rose 5.4 per cent to $95 3/16. Among other drug companies, Schering-Plough gained $3 1/16 or more than 6 per cent to $51 7/16 after it reported results.

Elsewhere in the Dow, Philip Morris rose $1 to $34⅛ after reporting its quarterly results. Putting pressure on its group, Chevron fell 5 per cent at $96⅜ and Alcoa was down $2¾ to $52 5/16 after a series of sharp run ups.

A strong report by online brokerage E*Trade sent the whole sector sharply higher at midday. *Shares of* E*Trade were up $12⅛ to $85 13/16 and Ameritrade surged 22 per cent or $19¾ to $107¼. Charles Schwab, the industry leader, was up a slight $2 1/16 to $104 1/16.

Other internet stocks were also higher, with America Online up 8 per cent to $125½. Shares of DoubleClick gained $17 to $121 after Goldman Sachs upgraded the stock.

TORONTO continued to track Wall Street lower in early trading in spite of a solidly based bounce for the heavyweight banking sector and a rally for telecoms.

By noon, the benchmark 300 composite index had added to Monday's 1.5 per cent setback, losing a further 10.49 to 6,897.20.

Banks, which were among the heaviest casualties on *Monday, attracted the bargain hunters.*

Royal Bank of Canada added 85 cents at C$76.85 and Toronto-Dominion Bank gained C$1.50 at $73.70. Bank of Nova Scotia rose 95 cents to C$34.60.

Industrials mostly lost ground. Alcan Aluminium retreated 80 cents at C$43 and Canadian Pacific came off 15 cents at C$33.35.

Resource-based stocks were also out of favour. In golds, Barrick shed 80 cents at C$27.95 while in the energy sector Imperial Oil fell 50 cents to C$29.30.

IT bears brunt of sell-off

EUROPE

European markets took a battering, with the main bourses shedding between 2 and 3 per cent as Wall Street opened weaker following a surprise negative performance on Monday.

Information technology and computer services stocks mirrored overnight losses on the Nasdaq composite, losing 6.4 and 5.8 per cent. The key cyclical sector of construction was the most resilient, posting a 0.8 per cent gain.

The FTSE Eurobloc 100 index, covering leading companies in the euro-zone, closed 26.69 or 2.5 per cent lower to 1,041.41. The FTSE Eurotop 100, covering countries inside and outside of the monetary union fell 79.90 to 2,944.38 while the broader FTSE Eurotop 300 settled 30.61 lower to 1,276.86.

PARIS retreated a sharp 126 or 2.9 per cent to 4,253.27 on the CAC-40, underperforming other European markets as Wall Street resumed trading weaker.

Technology stocks bore the brunt of the sell-off, tracking their Nasdaq-listed peers. STMicroelectronics was off €8.15 or 7.9 per cent to €95.15 while Cap Gemini shed €9 or 6.7 per cent to €126.20 and Bull retreated 30 cents to €5.80.

France Telecom weakened on the planned Telecom Italia-Deutsche Telekom link-up despite reports that negotiations between the two were stalled. Shares in the carrier were €3.30 off to €73.20, while Alcatel shed €9.30 to €119.

For full FTSE European Indices see Euro Markets page.

Rhodia pared most of last week's gains, ending €1.95 off to €17.55 as enthusiasm for cyclicals turned selective. Saint-Gobain, however, extended its recent run to finish €7.20 higher to €170.70 as banks upgraded their recommendation.

FRANKFURT shed 3 per cent on the Xetra Dax index, which ended off 150.99 at 5,101.41 after touching a low for the session of 5,082.21.

Telecoms, an uneasy market lately as a result of the investor shift from growth to cyclical stocks, faced a barrage of selling as brokers turned less positive and merger hopes faltered.

Deutsche Telekom's on merging with Telecom Italia hit political snags. ABN Amro moved from overweight to neutral on the European sector and WestLB Panmure cut earnings estimates at Mannesmann.

Deutsche Telekom shed €1.30 to €36.60. Mannesmann, hit by a WestLB cut in 1999 earnings per share estimates to €1.32 from €1.49, fell €1.95 to €117.70.

Insurers were also weak. Allianz lost €12.30 at €290 and Munich Re €11.30 at €180.10. Pulled lower by the overnight slide for US techs, SAP gave up €16 at €273.

AMSTERDAM fell 9.77 or 1.8 per cent to 549.62 on the AEX index, pushed down by steep falls for market heavyweights.

Philips, hit by the fallout for US techs, tumbled €3.20 or 4 per cent to €77.75 while Royal Dutch lost €1.45 at €52.05. Unilever ended €2 lower at €61.45.

KLM stayed firm on the news that US partner Northwest had turned in better-than-expected first-quarter results. The shares added €1.40 at €29.65 for a gain of more than 20 per cent over the past seven sessions.

ZURICH recovered from its lows for the day, but the SMI index still finished 119.4 or 1.7 per cent lower at 7,129.4 as the heavily weighted pharmaceutical sector came under renewed pressure after Monday's respite.

Roche certificates lost SFr270 to SFr17,250 in spite of its upbeat forecasts on sales and results for 1999. Novartis finished SFr51 lower at SFr2,340 ahead of its first-quarter figures due today.

Most financial shares were lower. UBS lost SFr4.50 to SFr479 and CS Group was SFr7 down at SFr283.50.

Adecco which published 1998 figures on Monday, dropped SFr38 to SFr730.

Distefora lost SFr6.50 after last week's string of strong gains. The shares finished SFr6 weaker at SFr143.50.

Against the trend, construction group Holderbank set a 1999 high of SFr1,849 before closing SFr26 higher on the day at SFr1,840.

MILAN closed near its lows for the day as hopes for a recovery in high-tech stocks were dashed by renewed early weakness on Wall Street. The real-time Mibtel index lost 279 to 24,773.

Telecom Italia and Tim were suspended for a second straight day as Telecom's board met to discuss plans for a merger with Deutsche Telekom. The meeting was continuing as the market closed.

Olivetti, which has made a $65bn offer for Telecom, ended 1.2 per cent lower at €2.88. Olivetti said on Monday that it was pressing ahead with its offer.

The banking sector was also in focus. San Paolo-IMI put on 1.1 per cent to €14.60 on assurances from a board member that the bank planned to go ahead with a share-swap merger offer for Banca di Roma. Roma rose €0.80 to €1.57.

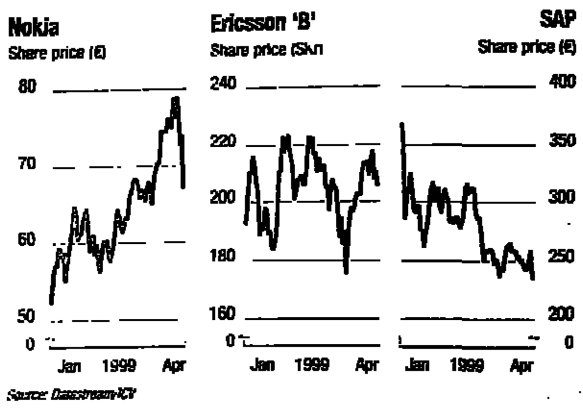
Analysts noted that Antonio Fazio, the Bank of Italy governor, was downbeat about San Paolo-IMI's offer and UniCredito's similar offer for BCI when he told a joint parliamentary committee that neither bank had given the central bank advance notice as they were required to do. UniCredito fell 2.9 per cent to €4.92 and BCI ended 1.7 per cent lower at €7.37.

OSLO staged a damage-limitation exercise, helped by a fresh rise in oil prices and resilient offshore-related shares. The Total share index finished 7.68 lower to 1,096.27, ahead of most European markets, after spending most of the day in positive territory.

HELSINKI tumbled throughout the day to post a 4.3 per cent loss at the close, virtually wiping out the sharp gains of recent weeks. The Hex index finished 289.05 off to 6,466.81, dragged down by a 7.3 per cent fall in Nokia, off €5.25 to €66.45.

Forestry and paper stocks stood their ground with the sub-index adding 0.3 per cent.

Written and edited by Michael Morgan, Bertrand Benoit, Paul Gregan and Mark Herlihy



Source: Datastream/ICV

Dow setbacks add to São Paulo downslide

SAO PAULO, off 2 per cent on Monday, continued to move lower in early trading with sentiment hit by further setbacks on Wall Street and news of a currency scandal involving a former central bank president.

At midsession, the benchmark Bovespa index was off 299 or 2.7 per cent at 10,898.

MEXICO CITY also continued to lose ground. Wall Street uncertainty, an upward blip for local T-bills and disappointing results from cement giant Cemex kept investors downbeat.

Cemex, which reported a below par 10 per cent gain in first-quarter operating profits, retreated 80 centavos to 47.20 pesos. The IPC index was off 37.05 at 5,427.12 at midsession.

CARACAS came back from its three-day weekend in positive mood, thanks mostly to the latest gains for international oil prices. The IBC index was up 8.30 at 4,959.79 at midsession.

Jo'burg follows US lower

SOUTH AFRICA

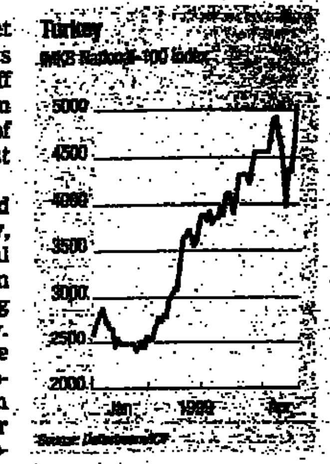
Johannesburg was spooked by Monday's fall on Wall Street and the overall index gave up 70.5 to 6,922.2 in turnover of R1.9bn.

Industrials dropped 86.5 to 7,463.8, golds tumbled 21.5 to 1,010.6 and the local information technology sector gave up 2.6 per cent.

Activity was dominated by trade in mining conglomerate Anglo American ahead of its listing in London on May 24. The shares gained 500 cents to R302.

EMERGING MARKET FOCUS

New-look party taken at word



The Turkish stock market yesterday recovered its nerve after being taken off guard by the meteoric rise in Sunday's general election of the far right Nationalist Action (MHP) party.

The IMKB-100 index closed 10 per cent higher yesterday, breaching a psychological barrier of 5,000 points in heavy volume, after opening 6 per cent lower on Monday.

Markets had hoped the poll would produce a two-party coalition between Bülent Ecevit, the caretaker prime minister, and the pro-business Motherland party of Mesut Yilmaz, the former premier.

The hope had been that this dream ticket would deliver continued efforts to drive down inflation, currently at around 60 per cent, and in the process clinch financial support from the International Monetary Fund.

IMF money would bolster the confidence of international lenders and investors in Turkey at a time of fierce competition among emerging markets for capital.

But largely because Turks do not reveal controversial voting intentions to pollsters, the MHP's emergence from obscurity to second place in parliament took all by surprise.

The big question for markets is whether to take at face value the party's declarations that it has transformed itself from an extreme nationalist party to a respectable organisation other parties can do business with.

Its manifesto is a model of economic probity, pledging to cut inflation to single digits and continue vital structural reforms such as the privatisation of Turkey's bloated state sector.

By yesterday, Turkish investors, at least, had decided to take comfort from MHP assertions that it would back reforms and from assurances by Mr Ecevit and Devlet Bahçeli, the economist who runs the MHP, that the two biggest parties would not be averse to forming a coalition.

"We're in a honeymoon period now after the initial shock," said Süleyman Tombul, of General Finance Securities. He believed the market would continue to rise until there was any negative feedback, such as new doubts about whether the parties would in fact be able to deliver a strong government.

Once an administration was formed, the market's course would be determined by the coalition's practical steps to cut the budget deficit and strengthen the financial sector, said Mr Tombul.

An early litmus test of any new government would be provided by its alacrity in pushing through overdue laws strengthening banking supervision and cutting the cost of a social security system that allows women to retire at 38 and men at 43.

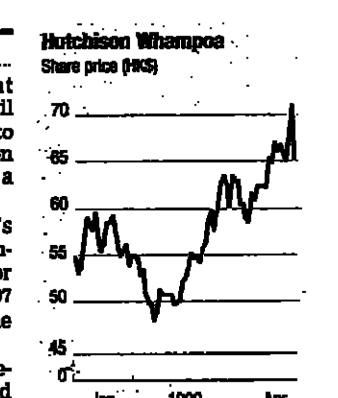
Mehmet Sami, vice president at Ata Invest, stressed that lots of uncertainty hung over the MHP's likely behaviour both in coalition bargaining and in government.

"I don't think anybody knows what the change in the MHP everybody is talking about means," he said.

Leyla Boulton

Fears of unrest shake Jakarta

ASIA PACIFIC



Source: Datastream/ICV

Wall Street's overnight volatility and fears of civil disturbances in the run-up to Indonesia's general election in June were behind a shakeout in JAKARTA.

The market was Asia's main casualty, with the composite index closing 22.18 or 4.4 per cent lower at 485.97 after touching a low for the session of 477.92.

Among blue chips, Telekom fell Rp25 to Rp3,550 and Astra International retreated Rp150 to Rp1,175.

TOKYO had a mixed day as technology stocks tumbled but other sectors rebounded, *writes Gillian Tett.*

The Nikkei 225 average closed up 22.9 points at 16,697.11, after trading between 16,526.53 and 16,749.05. The Topix index, however, closed 3.79 down at 1,328.9, while the Nikkei 300 fell 0.64 to close at 266.83.

A total of 636m shares changed hands on the first section, slightly lower than the levels seen in recent days. Losers outpaced gainers 640 to 557, with 127 issues unchanged.

The best performing sectors were transport equipment, gas and real estate. However, most exporting sectors suffered as investors continued to express alarm about the potential impact of a rising yen on companies such as Sony, TDK and Tokyo Electron.

Japanese government officials have been stressing that they do not wish to see any rapid surge in the value of the yen. And in private most indicate that a level of around Y120 to the dollar would be desirable.

However, with the Japanese currency currently hovering around Y117, there is growing concern the currency could strengthen further without intervention.

SINGAPORE ended a five-day rally, dampened by a reversal of fortune on Wall Street despite late buying by European investors that rescued the market from its lows. The Straits Times index finished 32.83 or 1.8 per cent off to 1,809.48.

Technology shares took the brunt of the losses, following their US peers lower. The sub-index fell 5.3 per cent, while Creative Technology shed S$2.60 to S$22.70 and Venture Manufacturing lost 80 cents to S$9.20.

HONG KONG dropped 2.8 per cent, in spite of a positive outcome to the eagerly awaited government land auction, as investors sold blue chips on worries about possible share placements and the direction of Wall Street. The Hang Seng index lost 356.66 to close at 12,409.78.

Hutchison Whampoa tumbled HK$5.75 or 8.1 per cent to HK$65.25 in spite of its denial that it was considering a secondary offering of 100m shares.

BANGKOK suffered along with other regional markets, with the SET index closing 6.08 or 1.5 per cent lower to 406.11, dragged down by losses in telecom issues. The telecom sub-index was off 4.4 per cent.

Traders said investors were pausing after driving the market up nearly 30 per cent from its 1999 low reached in February.

KARACHI was encouraged by news that Hub Power and the government had agreed to suspend litigation and start talks to end the simmering row over tariffs and corruption. The KSE-100 index closed to 26.99 or 2.6 per cent higher at 1,050.23.

Hubco put on 60 paise to Rs16.90, while Fauji Fertil*izer put on Rs2 to Rs53.70.*